

Perspectives



An interview with Andrew Cuomo Secretary of the U.S. Department of Housing and Urban Development

Perspectives asked newly appointed HUD Secretary Andrew Cuomo to discuss his goals and priorities for the department as well as programs and issues that affect community and economic development.

INSIDE

A Touch (Up) of Class

Flying to New Heights

Did You Know...?

PERSPECTIVES: **Since becoming Secretary, what priorities have you set for the Department of Housing and Urban Development?**

SECRETARY CUOMO: As HUD Secretary, I have four major priorities, and they touch on the Department's most important responsibilities: we must avert a crisis in the Section 8 program; expand opportunities for affordable housing; make welfare reform work; and restore public trust in our agency.

As you know, before President Clinton asked me to be his Secretary of HUD, I served as HUD Assistant Secretary for Community Planning and Development. We accomplished much in the President's first term, and the Department once again became a partner with America's communities.

But serious challenges remain: one out of five American children still lives in poverty. Over 5 million families spend more than 50 percent of their income on rent. And because of the genuine need to get control of federal spending and balance the budget, we face these challenges at a time when the Federal government has fewer and fewer resources.

So we have another, governmentwide priority: meet our fiscal responsibilities and at the same time address the important social issues that face our nation. I think we can meet our priorities and accomplish our goals with a government that is smarter and smaller, and a Department of HUD that is more sharply focused and better managed.

We will never lose sight of our goals, but we need to examine and reject failed means. We must be willing to admit that

some programs don't work and take action—like we did with old, high-rise public housing ghettos, and actively work to eliminate them and replace them with mixed-income housing built to the scale of the neighborhood. We must help create new partnerships between government at all levels and the private sector in our cities—like we have in our Empowerment Zone and Enterprise Communities program, where these new partnerships are creating results all over the country.

PERSPECTIVES: **A record number of Section 8 contracts are expiring, and millions of people are in danger of losing their homes either through eviction or sharp rent increases. What steps is HUD taking to preserve Section 8 housing?**

SECRETARY CUOMO: I'm hopeful Congress will renew these Section 8 contracts because not renewing them would put 4.4 million people at risk of losing their homes—either through evictions or unbearably sharp rent increases. In FY 1998 alone, contracts on 1.8 million units—each one helping to pay the rent for a low-income family or senior citizen living in poverty—will begin to expire. They represent more units than have expired from 1992 to 1997 combined, and this is at the heart of the crisis. Many of these people are the working poor. None of us would advocate a policy guaranteed to push hundreds of thousands of elderly, children and disabled Americans into homeless shelters and onto the streets of our communities.

The Section 8 renewal crisis is occur-

continues on page 2

Cuomo *continued from page 1*

ring, in large part, because 15- and 20-year subsidy contracts for tens of thousands of units are expiring for the first time, and contracts with shorter terms—less than five years—also are up for re-renewal. We have asked Congress for the funding we need to avert a crisis. The budget we have proposed for our next fiscal year, 1998, meets this potential crisis head-on. In FY 1998, we propose to renew expiring Section 8 contracts on 1.8 million units that house 4.4 million low-income people.

President Clinton has done the hard work to help us get a balanced budget agreement with balanced values that will help Americans buy a home, start a business, save for retirement and send their kids to college. The budget agreement gives us the funding necessary to avoid the Section 8 crisis for the immediate future and 5-year authority for contract renewals, basically advancing all our priorities and giving poor families a hand up to move from welfare to work.

In addition, within a decade virtually all of HUD's roughly 3 million Section 8 project- and tenant-based units will be converted to 1-year terms. As part of the contract renewal process, HUD also intends to stop paying excessive subsidies to owners of Section 8 properties whose rents are well above those for comparable housing in their neighborhoods.

Throughout the country, more than 800,000 units in about 8,500 projects have been financed by FHA-insured loans and supported by project-based Section 8 subsidies. About two-thirds of these projects—500,000 units of housing—have rents in excess of market rents. HUD wants to use market discipline to control the spiraling cost of Section 8

renewals, and we are working with Congress and the Treasury Department to restructure our multifamily portfolio and mark rents to market.

By restructuring the projects so that Section 8 rents reflect "real" rents in the area, we will realize cost savings that can be used to support other properties, where the subsidies are truly needed. This policy will reduce rents on more than half of all project-based Section 8 units that receive FHA insurance. Projected savings from our "mark-to-market" proposal would save \$1.4 billion over five years.

PERSPECTIVES: HOME and CDBG funds have been successfully used in partnership with private-sector investments and loans to spur economic development and new affordable housing. As the federal budget decreases, do you envision any significant changes in the Community Development Block Grant and HOME Investment Partnerships programs?

SECRETARY CUOMO: CDBG and HOME are two of HUD's most successful programs, and because of their block grant nature, they produce excellent public-private partnerships. Mayors in every state in America—big cities and small cities alike—tell me these are the HUD programs most important to the long-term health of their communities.

I don't see a need for legislative or structural changes to CDBG or HOME, because we made important administrative changes in 1993 and 1994 to improve and streamline both programs. What is more important for their continued success is that all of our community development programs are integrated into a local, computer-based, comprehensive planning

approach. We developed this approach because we wanted to link local needs—human services, environmental health, economic development, physical renewal—into a seamless community revitalization plan.

All of our community development programs are working better than ever at the local level, and I'd like to integrate more of HUD's programs into this "community-friendly" planning approach.

PERSPECTIVES: Partnerships among financial institutions, businesses and local government are often formed to foster economic development and increase jobs. Does HUD have any strategies in place to encourage workforce development through public-private partnerships?

SECRETARY CUOMO: HUD has become well known for emphasizing partnerships through existing programs like CDBG and HOME, and our strategies continue that approach through newer programs like Empowerment Zones and Enterprise Communities. One unique partnership we recently launched is called "Bridges to Work," and it's part of HUD's Welfare to Work strategy. Bridges links inner-city welfare recipients with jobs in the suburbs—right now it's a demonstration in five cities: Baltimore, Chicago, Denver, Milwaukee and St. Louis.

I've never had anyone ask me for a welfare check—people want a paycheck. Bridges to Work helps people in the inner city become part of the growing suburban job market by helping them with transportation, placement and supportive services.

Rapidly growing suburban employers need good workers, and low-income people in America's cities need good

continues on page 7

Public & Private Partnership



Gathering to review the plans of the newly remodeled Astoria Park complex are (from left) Ellen Dunn of Bank One–Amarillo, Steve Sterquell of the American Housing Foundation, John Mullaney of Midland Mortgage Investment Corp., Bill Davies of Bank One–Amarillo and Dale Cook of the American Housing Foundation.

A Touch(Up) of Class

Teamwork restores Amarillo apartment complex

Time can be cruel to buildings. Glory can fade. And once-elegant housing developments can grow old and deteriorate. The reasons this occurs are complex, but the fact is that no city is immune. When yesterday's wonderful apartment complex becomes today's eyesore, communities can face a difficult choice: tear it down or renovate it. Sometimes, though, the choice to renovate is clear. This was the case with Astoria Park in Amarillo, Texas.

Even from its construction shortly after World War II, Astoria Park has occupied a unique place not only in the hearts of the people of Amarillo but also near the heart of the city of Amarillo itself. "Astoria Park was the first garden apartment complex of its size and stature in Amarillo," says Dale Cook,

chief financial officer of the Amarillo-based American Housing Foundation (AHF), a nonprofit corporation dedicated to the promotion, creation and preservation of housing for low- and moderate-income families and individuals. "It was where a lot of young couples lived in the early years of their marriages, raised families and began their careers. Over the years, many of them, as their families outgrew the complex's two-bedroom apartments and their careers prospered, moved on to other parts of Amarillo."

As it turns out, in a small twist of fate, one of the couples who lived in Astoria Park in those early days were the parents of Steve Sterquell, who founded the American Housing Foundation in 1989. Sterquell had seen Astoria Park deteriorate over the years, a victim of time, economic changes and poor management. So, in 1995, when the opportunity arose to purchase the troubled property—which by this time was only about a third occupied—from the Resolution Trust

Corp., Sterquell and the AHF were willing to commit the funds and tackle the rehabilitation of Astoria Park.

The rehabilitation work would be daunting. Astoria Park consisted of eight buildings, more than 170 apartments, a swimming pool and a playground—all outdated, dilapidated or in various stages of disrepair. Moreover, 60 units were still occupied, so construction would have to take place around them. By the time the rehabilitation is complete in September, Astoria Park will have 164 apartments (148 two-bedroom and 16 three-bedroom), and each will have new plumbing, individually controlled central heating and air conditioning, new doors and windows, an all-electric kitchen with dishwasher and new cabinets. In addition, the pool and the playground will be refurbished. And finally, there will be one new building: a clubhouse/community center. Clearly, right from the beginning, the AHF knew that rehabilitating Astoria Park would be an ambitious undertaking and that a substantial financing package would be required.

For this financing, AHF turned to Bank One–Amarillo. "We had worked with Bank One before," says Sterquell, "and we knew that they could satisfy our banking needs. We also knew that the bank could put together complex deals that require layered financing. Moreover—and this is important for us—

continues on page 4

A return to glory: one of the eight buildings that make up Astoria Park. Located near downtown Amarillo, the garden apartments will be affordable for low- and moderate-income individuals and families.

A Touch(Up) of Class *continued from page 3*

while the bank naturally maintains a focus on the bottom line, it also makes certain that it does the right thing for the people who will eventually move into the rehabilitated housing."

Bank One is experienced in providing both construction financing and equity investment through the purchase of low-income housing tax credits. In fact, the bank had just recently provided construction and equity funding for the rehabilitation of the 38-unit Bel Aire Apartment complex, also in Amarillo. The Bel Aire rehabilitation was completed in 1996 and is now fully occupied. However, the Astoria Park renovation was larger than most renovation projects—not only because of the amount of money involved but also because of the sheer size of Astoria Park and the in-depth nature of the repairs.

"Putting together financing for a development like Astoria Park is often a very drawn-out, time-consuming process," says Bill Davies, president of Bank One—Amarillo. "It can take five, six or even seven months of hard work, and a lot of things really have to fall into place correctly, given the wide range of fairly complex regulations that have to be complied with, approvals that must be obtained and diverse groups that must work toward a common goal. Typically, a transaction like this falls apart not because of a lack of effort or will but because someone can't take care of some detail or meet a deadline."

In this case, though, all the pieces fell into place, thanks largely to the energy and determination of Ellen Dunn, a commercial banking lender for Bank One—



Amarillo who arranged the \$2 million construction loan, and Wayne Koehler, vice president of the Columbus (Ohio)-based Banc One Community Development Corp., which provided an equity investment of \$1.348 million by purchasing the low-income housing tax credits allocated to the project by the Texas Department of Housing and Community Affairs.

"For us," says Koehler, "the project makes a lot of sense, and our involvement is a logical decision. It's a good investment opportunity for us. However, equally important is that Astoria Park means a lot to the city of Amarillo, to the developers, to the investors and to the people who will live there. And, because of the experience and commitment of the American Housing Foundation, we know the job of rehabilitation will be done right. This is a project we're proud to put our name on."

John Mullaney, vice president of Midland Mortgage Investment Corp., which provided the \$2.5 million, 25-year mortgage loan, agrees with Koehler that the decision to invest in Astoria Park was a logical and sound business decision.

"Although rehabs can occasionally be a

problem, a good rehabilitation project can be more economically sound than new construction. This project lent itself to rehabilitation because Astoria Park is so aesthetically pleasing. In addition, the economics are favorable, and it's near downtown—an employment center."

Now, as the project is near completion and ready for tenants—one building, completed in March, is already occupied—Astoria Park is once again an asset to the community, something in which the city can have pride. As Bank One's Davies says, "It was a win-win situation all along." ▼



Adding the finishing touches....

Fast Facts

ASTORIA PARK

Astoria Park, a deteriorated and largely unoccupied multifamily housing complex in Amarillo, Texas, has been redeveloped through a public-private partnership into 164 safe, modern and affordable two- and three-bedroom apartments for low- and moderate-income individuals and families (148 two-bedroom units and 16 three-bedroom units). Astoria Park was financed through two sources of funding from Banc One Corp. Bank One-Amarillo provided the construction loan, and Banc One Community Development Corp. provided equity financing through the purchase of low-income housing tax credits. The complex was developed by a non-profit developer, American Housing Foundation, and the permanent financing was provided by the Midland Mortgage Investment Corp. through the Midland Affordable Housing Group Trust.

Sources of funds

Bank One-Amarillo construction loan	\$ 2,000,000
Banc One Community Development Corp. equity participation (Purchase of low-income housing tax credits)	1,348,000
Midland Mortgage Investment Corp. permanent loan	2,500,000
Southwestern Public Service utility rebate	86,044
American Housing Foundation acquisition costs and capital advances	1,433,688
Total sources of funds	<u>\$ 7,367,732</u>

Use of funds

Acquisition of property	\$ 925,000
Construction/rehabilitation costs	3,112,351
Soft costs, such as architects, closing fees and application fees	150,000
Construction interest (estimated)	135,300
Construction contingency reserve	150,000
Operating reserve fund	125,000
Reserve fund for replacements	150,000
Payoff of Bank One-Amarillo construction loan	2,000,000
Partial payment of development fee to American Housing Foundation	620,081
Total use of funds	<u>\$ 7,367,732</u>

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DID YOU KNOW..?

McAllen Affordable Homes

Receives Maxwell Award

McAllen Affordable Homes Inc. (MAHI) has received a Maxwell Award of Excellence from the Fannie Mae Foundation for the Los Encinos Community project. MAHI, a non-profit organization based in McAllen, Texas, received a \$25,000 grant from the foundation in recognition of its exemplary accomplishments in creating affordable housing for low-income citizens.

MAHI planned and built the Los Encinos Community on 60 acres of land near McAllen in a Foreign Trade Zone along the Texas-Mexico border. Although there are employment opportunities for residents of the area, adequate housing and amenities have been in short supply. MAHI plans to construct 246 single-family homes in Los Encinos. To date, 20 of the homes have been completed. The new development is located near a new elementary school, and the city will soon construct recreational facilities nearby, including a jogging trail, and baseball and soccer fields.

Social Compact Award Goes

To Fifth Ward Community Redevelopment Corp./Bank United Partnership

The Fifth Ward Community Redevelopment Corp. and Bank United have received a Social Compact Outstanding Community Investment Award. The theme of this year's awards was "The Business of Rebuilding America's Neighborhoods."

The Fifth Ward Community Redevelopment Corp. teamed up with Bank United in an effort to revitalize the Fifth Ward, one of Houston's poorest neighborhoods. The partnership has already built 77 single-family homes that are being purchased by low- to middle-income families. The partnership is offering more residents an equity stake in the community and attracting middle-income families to move into the community, which has a rich history and is located near downtown. ▼

Flying to New Heights

San Antonio addresses economic development challenge

Four years from now, San Antonio will still have the distinction of possessing the world's largest free-standing airplane hangar. However, it won't have Kelly Air Force Base, where the C-5 military aircraft hangar is located, because the base is scheduled to close and be privatized on July 13, 2001.

One might expect the loss of a major economic engine—and the consequent wrenching social and economic impact on the city and the region—to be met by shock, handwringing and a “what'll we do now?” attitude. Not so, however, in San Antonio, where a coalition of banks and civic development groups have sprung into action to provide funding and planning options for the base and the surrounding areas. They are determined to be proactive, to have plans in place and money available for new development, retraining and conversion before the base closes.

The keys to the response of San Antonio—where the military is a major employer—have been teamwork and speed. Shortly after the base closing was announced in mid-1995, 166 leaders representing all aspects of San Antonio's civic and social life drew up a strategic plan, including long- and short-term goals and objectives for the privatization effort. “The committee was able to put aside special interests and work to create a plan that was best for all of San Antonio. We're almost two years into the



(From left) Mike Bonham of Broadway National Bank, Genny Rakowitz of Frost Bank, Paul Roberson of Greater Kelly Development Corp., Judy Ingalls of Kelly Small Business Assistance Center and Bill Hudnell of Frost Bank stand in front of GKDC, which will coordinate the privatization of Kelly Air Force Base.

plan and, because it was so well conceived and so balanced, it continues keeping us on course and focused,” says Paul Roberson, executive director for the Greater Kelly Development Corp. GKDC was established by the city of San Antonio in early 1996 to coordinate all privatization activities, including Air Force contracts that will be awarded in the next few years, and will eventually commercialize the base and lease facilities out to major corporations, as well as small businesses.

GKDC will learn about its prospects for success as soon as the Air Force contracts with major aerospace firms as tenants for the base's major facilities—including the C-5 overhaul facility, engine overhaul facility and warehousing complex, all of which will act like anchors in a shopping mall and serve as a magnet to attract smaller businesses. Meanwhile, Judy Ingalls, director of the

Kelly Small Business Assistance Center, which is funded by a consortium of local, state and federal agencies, is working with some of the 10,000 civilian Kelly employees whose jobs will be affected by the closure and who are considering starting their own businesses. Since January 1996, Ingalls has been conducting classes and seminars for employees who may be interested in small business opportunities that they can use to their advantage. “So far,” says Ingalls, “almost 4,800 people have attended our classes, and we're doing our best to guide them to the local resources that will help them make the transition to self-employment.”

Among these resources is the \$130 million Kelly Redevelopment Small Business Loan Program. This program, established by 10 banks—Bank One, Broadway National Bank, CaminoReal

continues on page 8

Cuomo *continued from page 2*

jobs. As part of the Administration's larger welfare reform efforts, we want to make Bridges to Work a nationwide initiative in 1998. We expect we can help as many as 100 metropolitan areas develop strategies for Bridges to Work programs, with a preference for communities designated as Empowerment Zones and Enterprise Communities.

Once Bridges to Work programs are in place, they will be eligible for funding under the President's \$3 billion welfare-to-work jobs initiative, HUD's Community Development Block Grant program and public housing social services block grants and other federal funding sources. In addition, the President has proposed tax credits for private-sector partners who hire long-term welfare recipients.

And we are helping to build economic opportunity through our Section 108 Economic Development Loan Fund. We recently awarded about \$22 million to eight cities—funds that will bring in at least \$60 million in private investment, and result in hundreds of jobs for low- and moderate-income people. Our Jobs-Plus program is a new partnership we've established with the Rockefeller Foundation and the Manpower Demonstration Research Corporation, with additional financial support from the Surdna Foundation. Jobs-Plus is a welfare-to-work demonstration project designed to significantly increase employment and income of public housing residents in seven cities across the country. Still another initiative, \$31 million in Economic Development and Supportive Services grants, will help 45 public housing developments give people the training, education, child care, transportation and other services to help them get jobs and become self-supporting.

PERSPECTIVES: You have spoken in the past about the impact that cities and suburbs have upon one another. How do you view the interrelationship between a city and its suburbs with regard to economic development and housing?

SECRETARY CUOMO: It's difficult to understate the importance of regional cooperation. Today, neither the city nor the suburb can stand alone and thrive.

Our national economy has been transformed. The old growth engines like manufacturing—which provided a good third of all "city" jobs just 30 years ago—are gone either overseas or to the suburbs—or gone for good. But new industries have sprung up all over

"Today, neither the city nor the suburb can stand alone and thrive."

America, and they compete in a new global economy. The most successful of these industries get their strength from a regional base, not from any one city or suburban location. The most obvious example is California's Silicon Valley, which is successfully linked to the region's transportation systems, financial infrastructure, workforce and educational institutions.

Industries benefit from strengths throughout the entire region, and the entire region benefits back from the industry. In economic development, metropolitan areas that came together as one region benefited first from the new American economy. Many of those that were slow to see the change now understand—and are working to

create—regional cooperation for economic growth.

There is a parallel in housing. Just as many cities relied on old-growth industries to provide jobs for residents, they relied on traditional public housing to shelter the poor. But the nature of poverty changed: with more female-headed households, more social and behavioral problems—more homelessness. Public housing became warehouses of the poor.

Today, the most successful low-income housing programs address the variety of problems faced by the poor—from job training to life skills—and help these families move to new opportunities. HUD has worked to encourage this approach by changing national policies to make low-income housing programs more flexible and more regional in nature.

We've begun to demolish and replace those old high-rise public housing projects, and given low-income residents more opportunities to move throughout the region. At the old sites, we're helping build mixed-income low-rise developments that better reflect a community's broader economic base and serve families with a wide range of incomes.

Contemporary HUD programs support expanded regional housing opportunities. Low-income families can use a Section 8 housing voucher to find rental housing wherever employment and education opportunities are greatest. We see time and again that families who move out of the concentrated poverty of the inner city—the kids do well in school, the parents do better economically—do better than most families who can't or don't seek out that opportunity.

continues on page 8

Cuomo *continued from page 7*

At the regional level, metropolitan-wide solutions to affordable housing have grown. In some places, this has been through unifying their local governments—where surrounding areas are annexed by the central community. In regions that are too large and complex for formal unification, it's happening through increased support for "fair share" housing. HUD will continue to encourage metropolitan cooperation throughout the country, because when access to housing and economic opportunities is opened at all levels, families benefit and the entire region benefits.

PERSPECTIVES: What would you like as your legacy when you leave the Department?

SECRETARY CUOMO: Let me talk to you about my goals for the Department; legacies are for others to decide. Our goal should be to create a future unlike any that has come before; a future that is open to all and in which no person is left behind, and in which no community is forgotten; a future in which everyone who is willing to do his or her part will be empowered with the tools to reach as high as their talents and hard work will take them.

While I'm here, I want to help more families, especially young couples and people with moderate incomes, become homeowners. I'd like to see American communities become stronger and healthier, with more and more inner city neighborhoods taking a bottoms-up, empowerment approach to their physical and economic development problems. I want to see an end to America's problem with homelessness. ▼

Flying to New Heights *continued from page 6*

Bank, First National Bank of South Texas, Frost Bank, InterContinental National Bank, McMullen County State Bank, NationsBank, Norwest Bank and Texas Commerce Bank—will run until August 31, 2001. It is intended to help small businesses that will be involved in the redevelopment of the base, businesses that will service the major corporations that will be coming to Kelly when it is privatized, businesses within five miles of Kelly that may want to or need to change their direction and Kelly employees trying to start their own business. The loans, which will range from \$10,000 to \$2.5 million, will be made available to businesses with sales or revenues of less than \$5 million.

Genny Rakowitz, vice president and Small Business Administration loan coordinator for Frost Bank—whose chairman, Dick Evans, took the lead in establishing the loan program—notes that the program offers a number of advantages.

"Bank loan-origination fees have been waived," says Rakowitz, whose bank has already provided one of the first of the loans to a tortilla factory that wanted to expand. "In addition, the interest rates are quite favorable; for short-term loans of a year or less, the rate is prime floating, and for long-term loans, up to seven years, the rate is floating at prime plus one or fixed at prime plus two. And finally, these loans can work in conjunction with other loan programs offered through other agencies helping small businesses. It's really a good deal for businesses, for Kelly and for the city of San Antonio."

Mike Bonham, vice president of Broadway National Bank, agrees with Rakowitz. "The loan program can be a source of optimism for everyone involved in the commitment to redevelop Kelly."

And ultimately, that's the key to how San Antonio is responding: teamwork plus planning plus commitment—all of which add up to justifiable optimism. ▼

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