HOPE VI and ST. THOMAS

Smoke, Mirrors and Urban Mercantilism

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Forward

Accurate information is the precondition to meaningful public debate. The discussion surrounding the St. Thomas HOPE VI redevelopment, however, has been characterized by a basic lack of knowledge about the realities of the project, for two reasons. First, the redevelopment is very complex. And second, the agencies responsible for the redevelopment, the Housing Authority of New Orleans and Historic Restoration Inc, routinely have misrepresented what actually is being built, in ways that will be discussed.

The purpose of releasing this study to the public is to move the debate on the St. Thomas HOPE VI toward more secure footing, by providing a concise and detailed review of the redevelopment and its implications.

This study originally was conducted as a Masters dissertation at the London School of Economics. It attempted to examine not only what has happened at St. Thomas, but also why these things tend to happen. The current version includes a new Executive Summary, which narrows the focus to the specific, and often shocking, facts of the current redevelopment plans. For the reader in a hurry, attention should be directed to the Executive Summary, Chapter 3 and Appendix F, which assesses the costs per public housing unit to the public sector for Phase I of the redevelopment.

It is the goal of the author that the current study will provide the basis of evidence by which the St. Thomas redevelopment can be seen for what it is. Once that is achieved, it is believed that appropriate action will be a matter of course.

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EXECUTIVE SUMMARY

The goals of the present study are to determine the extent to which the St. Thomas HOPE VI redevelopment will fulfil the aim of the HOPE VI program "to improve the living environment for public housing residents", to assess whether the public sector is receiving appropriate value-for-money for its investment in the project and to discuss the effect the St. Thomas redevelopment, in its current form, will have upon public housing and the concentration of poverty in New Orleans.

The findings of the study can be summarized under five headings.

I. Non-implementation of HUD-accepted HOPE VI Grant Application

The current redevelopment plans of Historic Restoration Inc represent a dramatic departure from the project that received HOPE VI funding, outlined in a1996 HOPE VI Grant Application for which HUD allocated $25 million in federal funding.

Housing Provision

The HOPE VI Grant Application called for the development of 563 units of public and low-income housing on the St. Thomas site, 292 of which would be public housing and 271 of which would be affordable units and subsidized for-sale homes. HRI's redevelopment proposal calls for 258 units of subsidized housing on-site, only 105 of which are public housing units and 153 of which would be affordable and for-sale homes. HRI's current plans represent a reduction of 305 subsidized units, or 54%, on the original Grant Application. HRI also has raised dramatically the income levels to which many of these "low-income" units will rent. Many will rent to tenants earning up to $26,400, an income level that excludes all former St. Thomas and public housing tenants in the City.

The number of market-rate units at the New St. Thomas has been increased dramatically from the 212 market-rate units called for by the HOPE VI Grant Application, to 884 market-rate units in HRI's redevelopment plans. This represents an increase of 687 market-rate units, or 317%. These market-rate units include 100 luxury condominiums selling for between $300,000 and $400,000 per year and 312 elderly units renting for $3,000 per month.

According to the Grant Application, the income mix on the site of the New St. Thomas would consist of 50% public housing units (renting to tenants earning up to 50% Area Median Income [AMI]), 30% affordable units (up to 60% AMI) and 20% market-rate units. HRI plans call for 9% public housing units, 13% low-income units and 78% market-rate units.

These differences between the housing for which HOPE VI funding was allocated and HRI's current redevelopment plans are graphed in Appendix D, 2-7. Because of these reductions in public housing, the New St. Thomas will have approximately 78

units that will rent at income levels within the reach of the 806 former St. Thomas families. In all likelihood, significantly fewer former St. Thomas families actually will return to the New St. Thomas. The tenant selection process is strict, and HRI and HANO flatly have refused to reserve any units specifically for former St. Thomas residents.

HRI has proposed to compensate partially for the 305-unit shortfall in low-income housing by developing 100 low-income units off of the St. Thomas site. These units, however, will not be funded out of HOPE VI grant money, because HRI claims that "the funding for developing off-site housing under the HOPE VI grant was not available" (HRI 2000). HRI is arguing that because it decided to move units from an on-site to an off-site location, HOPE VI funding was thereby not allocated for their construction, even though the number of units developed is still 205 fewer than those for which HOPE VI funding was allocated. Funding for the 100 off-site units is still uncertain.

Ownership, Management, Resident Selection and Commercial Components
The HOPE VI Grant Application called for non-profit, resident ownership of 51% of the development. HRI plans call for full private ownership of the development by HRI and its investors.

The HOPE VI Grant Application called for resident management of the development through a Resident Management Corporation (RMC) and a resident-controlled tenant selection process. HRI plans call for management of the development by a wholly owned subsidiary, Historic Restoration Inc Management (HRIM) and a unilaterally determined tenant-selection process, which will exclude most public housing tenants.

The Grant Application called for small-scale, resident-owned commercial stores, with profits reinvested in resident services. HRI plans call for a 215,000 sq ft Wal-Mart Supercenter, in which the residents will have no equity share (although HRI will reap a 20% profit from its re-sale of the Wal-Mart land).

Changes to original development plans are acceptable under HOPE VI guidelines, within certain parameters. But HRI's changes extend beyond all reasonable parameters. They amount to a completely different development, and one that represents incomparably less provision, both for former St. Thomas residents and for the public sector's investment. In accepting HRI's revitalization plan, HUD has given approval to a different project from the one that received HOPE VI funding, without the requisite public hearing to fund a different plan. The St. Thomas HOPE VI is bait and switch, on a $100 million scale.

II. HANO Distortion of the Actual Redevelopment Plans

The Housing Authority of New Orleans routinely has misrepresented HRI's actual development proposal. HANO's website currently claims that the "income mix" of the New St. Thomas will be 60% market-rate units and 40% public housing units. To

arrive at this 40/60 ratio, however, HANO has *excluded* from its calculations 470 market-rate residential units located directly on site, while *including* 100 separately funded, off-site low-income units as part of the "income mix" at the New St. Thomas. The actual "income mix" at the New St. Thomas will be 78% market-rate and 9% public housing, with an additional 13% low-income units.

HANO's apparent reasons for this distortion are two-fold. First, it would seem that HANO is attempting to insulate the project from public criticism, by disguising the extent to which the redevelopment plans have departed from the proposals for which HOPE VI funding was allocated. Second, HANO would appear to be attempting to represent the project in a way that makes it eligible for the Low Income Housing Tax Credit (LIHTC) program, which requires that 40% of units in a development be reserved for residents earning below 60% AMI (the 40/60 test). Using legitimate methods to calculate the New St. Thomas income mix, the redevelopment fails the 40/60 test by a wide margin. It would appear, therefore, that HRI is depending upon HANO's distortion to receive a public subsidy for the project, for which the project is not eligible.

III. Public Costs Per Low-income Unit

Because HRI is developing far fewer low-income units than those for which HOPE VI funding was allocated, the federal subsidy per low-income unit is approximately twice as large as the average per-unit subsidy of HOPE VI projects nationally. In addition, HRI has convinced the City of New Orleans to allocate a further public subsidy of $20 million to the redevelopment in the form of Tax Increment Financing (TIF) on the sales tax of Wal-Mart Supercenter to be built on land adjacent to the residential site. Final approval of the TIF is still pending, but if it is approved, the cost to the public sector per low-income unit will be exorbitant.

In Phase I of the development the public sector is paying $325,774 per low-income unit developed. This is higher, by orders of magnitude, than the cost per public housing unit in any previous HOPE VI development, and far higher than the national average of $117,920. Relative to the national average, low-income units in the St. Thomas HOPE VI are over-subsidized by an average of $207,854. According to available data, the St. Thomas redevelopment represents the single worse value-for-money in the HOPE VI project's history.

Clearly, HRI is not actually spending $325,000 to develop each unit of low-income housing. The source of the over-spend becomes clear if one calculates the average cost per unit of for-profit, market rate housing in Phase I, relative to private investment in the project, as detailed in Appendix F. For private investors, the average cost for each profit-yielding rental unit in the New St. Thomas is a mere $110,805, $214,969 less than the public sector is paying for the construction of its rental units. The only explanation is as follows: Public money in the St. Thomas HOPE VI is cross-subsidizing the for-profit component of the development, to an extent that is unprecedented in the history of HOPE VI projects nationally. The

project is vastly undercapitalized on the side of private investment, and the public sector is filling the gap.

HRI has argued that if the development had any further public housing on site, it "would not add up" — it would become a slum and could not attract market-rate residents. HRI's notion of "market-rate residents", however, clearly is not a litmus test of the feasibility of a mixed-income development. HRI is planning the development in a way that will attract 100 purchasers of luxury condominiums worth between $300,000 and $400,000 per year and 312 rental households paying $3,000 per month. This leaves a vast amount of room to trade off more public housing for lower market-rate income-level residents, and still create a successful mixed-income development.

IV. Consequences for Former Residents and New Orleans Public Housing

For the great majority of former St. Thomas residents, the outcome of the St. Thomas HOPE VI will be wholesale displacement. With the project's strict selection criteria and with 70 units "promised" to the income category in which 99% of the 806 St. Thomas families fall, the vast majority of former residents clearly will not return, whatever HRI says about their "right" to do so. Most have been scattered to other housing projects, some are living in Section 8 and some have helped to fuel the recent rises in homelessness in New Orleans.

The St. Thomas redevelopment also will have consequences for New Orleans public housing generally, which are likely to be the opposite of those called for by the social agenda of HOPE VI. As HRI's resident-selection guidelines make clear, the public housing families who do end up living in St. Thomas will be the most stable in the city — those with the highest incomes, no instances of late rental payments, no criminal history and the best employment and credit records. With the most stable tenants creamed off the top to live among the wealthy at the New St. Thomas, conditions in the other housing projects in New Orleans can be expected to deteriorate, as the concentration of poverty in those developments increases. This process appears already to be underway, with the precipitous rise in recent crime and murder rates at the city's other public housing projects, in particular at the St. Bernard Housing Development.

HANO has four other HOPE VI redevelopments in the pipeline, at the Desire, T. J. Peete, Guste and Fischer Housing Developments. If these follow in the footsteps of St. Thomas, the creaming effect described above may become considerably more significant. If future HOPE VI projects go the way of St. Thomas, New Orleans may well end up with urban ghettoes that make the current ones look healthy.

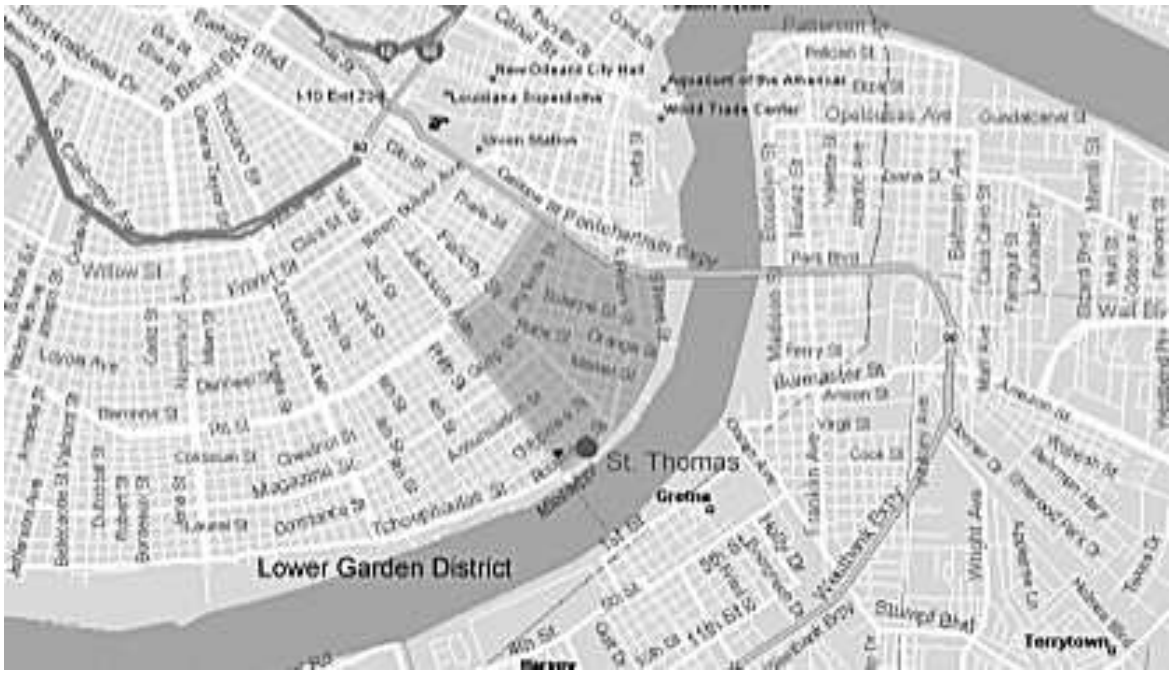
Conclusion

The housing needs for the poor in New Orleans are not being met by the St. Thomas HOPE VI project. Federal money allocated specifically "to improve the living

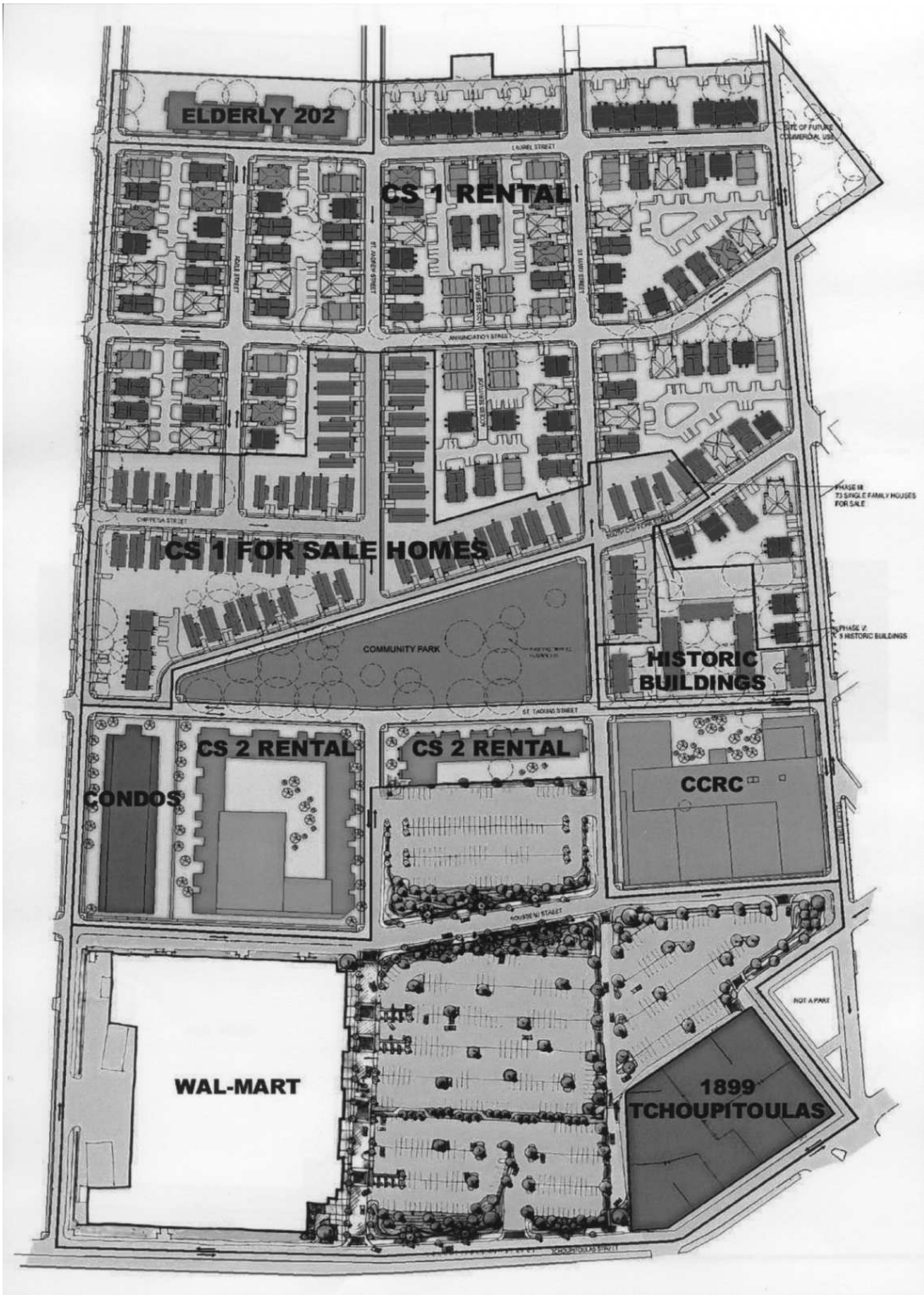
environment of public housing residents" is being diverted into a massive public subsidy of a private, profit-making enterprise, with only a token presence of public housing. The project represents a vast misallocation of public resources and a betrayal of the residents for whose benefit those resources were intended.

It is not, however, only public housing residents that will suffer from the St. Thomas HOPE VI. The goal of the HOPE VI program is to reduce the concentration of poverty. To displace nearly all residents from a housing development, however, does not reduce the concentration of poverty. It reduces the concentration of poverty *in one neighborhood,* which is convenient if one owns a $400,000 per-unit condominium facility on site, but which in fact will *increase* the concentration of poverty throughout the city as a whole, making it more dangerous and more violent than it is already. If the St. Thomas HOPE VI goes forward, the City, the State and the Federal Government are investing over $100 million to make a bad problem worse.

Location of St. Thomas Housing Development, New Orleans



Historic Restoration Inc, St. Thomas Redevelopment Plans



1 INTRODUCTION

This thesis will examine the redevelopment of the St. Thomas Housing Development in New Orleans, Louisiana. The project is part of the US Department of Housing and Urban Development's (HUD's) HOPE VI program, under which local housing authorities can receive multi-million dollar federal grants to overhaul "severely distressed" housing complexes, for the stated purpose of "improving the living environment for public housing residents". The study has three objectives: a) to determine the extent to which the St. Thomas HOPE VI is likely to fulfill the aim to improve living conditions for public housing residents; b) to analyze the political and economic forces that helped to determine the outcome of the St. Thomas redevelopment; and c) to discuss the implications of the St. Thomas case for the viability of HOPE VI as a public housing initiative and for the future of public housing in New Orleans.

Our analysis has been conducted under the assumption that the current redevelopment plans actually will be implemented. The assumption is risky because nothing has yet been constructed on the currently vacant St. Thomas site, and, as will be seen, the plans for the "New St. Thomas" have shown a tendency toward drastic change. Nevertheless, the current plans are considered "finalized" by the developer and the Housing Authority of New Orleans (HANO), with a few exceptions that will be discussed.

Background

Of the 2785 people who lived in the St. Thomas Housing Development in New Orleans before it was demolished for redevelopment in 2000, all were poor.[1] Nearly all of the 806 families had "extremely low incomes", earning less than 30% of the area's median family income; 90% of households earned less than half that much. Average household income was under $5,000 per year and had been steady, in nominal dollars, for the previous two decades; adjusted for inflation, it had been steadily dropping. Sixty-one residents, or 2% of the total population, were employed full-time, with an additional 1.5% of residents employed seasonally or part-time. 93% of all households with a family head of working age had an earned income of zero, a percentage of joblessness that had risen from 86.4% in 1990 and 65% in 1980. 62% of households were headed by a single mother with children; nearly half of St. Thomas residents were under 18. The population density of the development was over 400% higher than that of the surrounding neighborhood. Most of the nearby through-streets came to a dead-end at St. Thomas. The rate of violent crime in the complex was 722% higher than that for the city as a whole, in a city that topped national statistics for violent crime per capita. 80% of housing units on site failed national standards of physical deterioration. 95% of them had potentially poisonous lead-based paint peeling from their interior walls. Nearly half of the apartments were vacant and boarded up. 99.6% of St. Thomas residents were black.[2]

St. Thomas, in short, was a typical American ghetto, somewhat worse off than most in the country, but characteristic of large inner-city housing developments

[1] Defined as households earning less than 50% of the area median income.
[2] Statistics drawn from Reichl 1999; HANO 1996c; HANO 1994.

in its physical deterioration, appalling living conditions, high population density, isolation from the surrounding neighborhood and extremely high rates of poverty, joblessness and crime. Indeed, among housing projects in New Orleans, St. Thomas was better off than most. On a city Planning Commission index that measures overall neighborhood condition, St. Thomas ranked above five other developments in the city, below the remaining four.[3]

It was the misery of these conditions that led St. Thomas residents, in the mid-1990s, cautiously to throw their support behind a HOPE VI project to redevelop St. Thomas as a "mixed-income" community. HUD generally follows the practice of not allocating HOPE VI funds unless residents sign off on the proposal, so it was important for the Housing Authority of New Orleans (HANO) and other interested parties to get the residents on board. The St. Thomas land had extraordinary latent market value, and the St. Thomas Resident Council (STRC) was aware of the threat that HOPE VI could become merely a tool to gentrify the area and permanently displace St. Thomas residents. But the residents were well organized politically, and they made alliances that allowed them to achieve a meaningful voice in designing the redevelopment master plan. The outcome of these negotiations was outlined in a HOPE VI Grant Application submitted by HANO to HUD in 1996, on the basis of which HANO received $25 million of federal funding to create the "New St. Thomas".

The HOPE VI Grant Application called for a three-tiered income mix at the new development: 50% public housing, 30% Low-Income Housing Tax Credit (LIHTC) units and 20% market-rate housing. It was further specified that 60% of the public housing units (176 units) would be reserved for families earning less than 30% of the area's median family income (AMI) and 40% (116 units) would be reserved for families earning 30-50% of AMI. The 176 LIHTC units would rent to families earning up to 60% of AMI. Ninety-five additional homes would be available for purchase, highly subsidized to make them accessible to public housing tenants, balanced by 95 market-rate homes. The residents would own a controlling stake in the project, becoming "a 51% partner in a joint venture with an experienced multifamily housing developer", to ensure that residents' interests were protected. Finally, residents would manage the site and control the resident selection process, through a newly formed "Resident Management Corporation" (RMC).[4]

Eight years later, with the property demolished and the residents displaced, the plans by which the New St. Thomas actually is being redeveloped are unrecognizable. The resident ownership and resident management arrangements have disappeared entirely, in favor of full ownership and management control by a subsidiary of the developer (HRI 2000b, HRI 2001a, HRI 2001b). The number of market-rate units has been increased by 317%, from 212 to 884. The number of subsidized units has been reduced from 563 to 258 units, a reduction of 54%. Most of these subsidized units, furthermore, will rent to income levels well out of reach of former St. Thomas residents and of nearly all public housing tenants in New Orleans

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[3] New Orleans Planning Commission 2002

[4] Relevant portions of the HOPE VI Grant Application include HANO 1997a:146; HANO 1996a:15; ULI 1993:38, 55; HANO 1994:3, 4, 8, 9, 28, 29, 35, 39-40; HANO 1996b:3, 4, 9, 12. See also HANO 1997b:7 and HRI 2000a.

(see Chapter 3). The developer, Historic Restoration Inc (HRI), has said that it "has every intention" to compensate partially for the 305-unit shortfall in on-site low-income housing with 100 off-site rental units, but it "was unable to guarantee anything", because the funding for these units is still uncertain. In protest at these changes to the original redevelopment plans, the Resident Council recently broken off all negotiations with the developers, essentially powerless to influence plans that have the full support of the housing authority, city government and HUD (*Times-Picayune* 2001b).

The Study

One of the purposes of this study is to describe in some detail the differences between the proposal for which HOPE VI grant money was allocated and what actually is being built. Most of the information is not in the public sphere, and the housing authority and developers continue to deny that any substantial changes to the original plan have been made. Our purpose, however, is not merely to provide an exposé on corruption or give a blow-by-blow account of how the interests of public housing residents have been progressively undermined by the political maneuvering of local elites. The ultimate goal of this study is to examine the political and economic forces that helped determine the course the St. Thomas HOPE VI took. For the dynamics underlying the battle over St. Thomas and its outcome are common to most American cities, especially poor American cities. The failure of the St. Thomas HOPE VI has broad implications for other HOPE VI developments and for the future of public housing in New Orleans and throughout the United States.

Some aspects of the St. Thomas HOPE VI call out for analysis more than others. That a private developer and its investors would attempt to reduce to a minimum the number of public housing residents in a development they own is unsurprising. Private capital seeks the highest return on its investment, and public housing residents, especially the extremely poor, would hinder the profitability of a market development, precisely to the extent that they were there at all, both directly, by taking up potentially market-rate space with subsidized rents, and indirectly, by scaring off high-income residents. There is no mystery in the fact that the developer, HRI, would want as little to do with public housing as possible.

What does call out for scrutiny is that government at all levels—from the local housing authority and the New Orleans City Council to the Louisiana State Legislature and the federal overseer, HUD—not only acquiesced in this process, but bankrolled it to the tune of almost $100 million. Such a gross misappropriation of public funds in the interest of private capital—funds allocated specifically to "improve the living environment for public housing residents"—calls out for explanation beyond accusations of individual corruption. For when a specific form of corruption reaches so universal a level of prevalence, among hundreds of individuals and across several sectors of government, one must look beyond personal virtue, or its absence, to discover the source.

This analysis has some topicality. Within the last year, the representative body of another New Orleans housing project, the Desire Area Resident Council, has sued HANO over its implementation of a HOPE VI grant, alleging that HANO "reduced the number of low-income units planned" and set up "arbitrary,

unreasonable standards" for residents who wished to return, "in an effort to create an affluent neighborhood to attract middle-class African-Americans and Whites."[5] Residents of yet another New Orleans housing complex, Guste Housing Development, first issued a formal petition, then sued HANO, to oppose its application for a HOPE VI grant to redevelop their community. Public housing residents have filed lawsuits and petitions against HOPE VI grants in at least seven other U.S. cities.[6] Despite this, public officials, HUD, local housing authorities and most academics still speak with confidence about the good HOPE VI is doing throughout the country. It is time we begin to understand why HOPE VI projects are being opposed most vigorously by those they supposedly were intended to help.

Methodology

The research for this study consisted of interviews with representatives of the Housing Authority of New Orleans, Historic Restoration Inc, the St. Thomas/Irish Channel Consortium, the St. Thomas Residents Council, the Desire Area Residents Council, the Guste Homes Resident Management Corporation, the Community Resource Partnership and the New Orleans Citywide Tenant Association[7]; detailed analysis of the contracts and other documents relevant to the redevelopment, including two "master plans" for St. Thomas and the surrounding neighborhood upon which the original HOPE VI application was based, the HOPE VI application itself, HRI's final "Revitalization Plan" and "Mixed Finance Development Proposal", official and unofficial correspondence that took place during the negotiation process, audits of the project by HUD and agreements between the developers, HANO and the residents; and, finally, reading all New Orleans newspaper articles dealing with the redevelopment of St. Thomas written in the last twelve years.

Acknowledgments

Thanks are due, in particular, to Jane Apffel of the Community Resource Partnership who provided access to a great deal of material unavailable elsewhere; to David Piachaud and Emily Silverman of the London School of Economics, who commented helpfully on an initial draft; and to a former New Orleans City Council member, also my father, who helped elucidate the workings of urban mercantilism, initially in its defense, later more critically.

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[5] DeVault 2001, citing the lawsuit and the residents' lawyer, Charles Cotton.

[6] In St. Louis, Cincinnati, San Francisco, Washington D.C., Charlotte, North Carolina and Boston. See Pitcoff 1999; DeVault 2001; Fletcher 2001

[7] Interviews were conducted in April and May, 2002.

2 HOPE VI AND THE DUAL AGENDA

Since its initiation in 1992, HOPE VI, standing for "Housing Opportunities for People Everywhere", has been HUD's banner public housing initiative. The program provides grant money to local housing authorities, which, in conjunction with private investment, is used to demolish or refurbish many of the country's "severely distressed" public housing complexes and redevelop them as "mixed-income communities". HOPE VI was born out of a broad political consensus that the practice of concentrating poor people in mass housing complexes, physically and socially cut off from their surrounding neighborhoods, was a recipe for disaster. The failure of post-New Deal public housing existed on two conceptually distinct levels. First, public housing developments failed their residents, degenerating into urban ghettoes with levels of poverty, unemployment, physical deterioration, crime and drug use unparalleled in the industrialized world (Wilson 1987, 1996). Second, public housing projects failed cities in their capacity to sustain themselves economically, diminishing nearby property values and becoming perennial obstacles to private investment and middle-class residency in large sections of once-vital central city areas. Matching the dual failure of public housing in the United States, HOPE VI was created with a dual agenda: a social agenda, to improve the lives of residents, and a market agenda, to make inner cities once again attractive to capital, rentiers and wealthy residents.

The Social Agenda

It is the social agenda that headlines HUD's public statements on the HOPE VI program, coalescing around the slogan of creating "One America" (HUD 2000). Public housing in the United States was not intended originally to house only the most poor. In the first few decades of mass housing projects, from the 1930s to the 1950s, projects were populated predominantly by low-income working families, an "income mix" that was enforced by a rule that only 20% of the spaces in any housing project could be assigned to families on relief. From the 1960s, however, as suburbanization gathered pace and unemployment increased nationwide, these limits were relaxed, and more unemployed families moved into inner city housing projects. White families that could afford to move out of public housing did, and with the passing of the Civil Rights Act in 1964, working blacks, previously denied residency in white neighborhoods by restrictive covenants and racial steering, increasingly moved out of public housing as well. Housing projects became the reserves of chronically unemployed blacks (Mahoney 1990, Massey 1988, Wilson 1987).

The social agenda of HOPE VI is to embed public housing once again within mixed-income communities, in order to turn around the vicious cycle that led to the decline of living standards in housing projects. The theory is that, by attracting working people back into ghetto areas, disposable income in those areas will rise, and with it effective consumer demand. This will create the conditions in which businesses will return to ghetto neighborhoods, generating employment opportunities for public housing residents and creating neighborhoods better serviced by amenities. With more people, and especially more men, in employment, the diminished "male marriageability pool", by which W. J. Wilson explains the precipitous rise in single-

motherhood in urban ghettoes, will be repopulated (Wilson 1987). Residents will once again have "pride in their communities", the absence of which is often blamed for the physical state of U.S. public housing. And poor people will have positive, "mainstream" role models living right across their streets, helping them to realize that the American dream is possible after all.[8] Although it is rarely stated, the goal of dispersing poverty also has been driven by a concern for maintaining social order — in a word, riot prevention. Since the upheaval in urban ghettoes across the country after the Rodney King verdict in 1992—going back, indeed, to the Watts riots of 1965—it has been recognized that inner-city housing projects, in their current conditions, are powder kegs of social unrest.

The Market Agenda

The market agenda of HOPE VI, by contrast, has very little to do with residents *per se* and a great deal to do land values. For, as Paul Peterson has argued, it is really land more than people that defines the economic well being of cities:

> City residents come and go, are born and die, and change their tastes and preferences. But the city remains wedded to the land area with which it is blessed (or cursed). And unless it can alter that land area, through annexation or consolidation, it is the long-range value of that land which the city must secure—and which gives a good approximation of how well it is achieving its interests (Peterson 1981:24).

By Peterson's standard, the last several decades have been a bad time for cities' interests, especially in respect to the land beneath or near public housing developments. Little could be more detrimental to a neighborhood's land values than a public housing complex nearby. With the decline of public housing developments into ghettoes, they and their surrounding neighborhoods took on almost mythical proportions as "no-go" areas for businesses, loaning institutions and wealthy residents. As a columnist in *The Louisiana Weekly* put it, St. Thomas was a "gaping hole" in the city of New Orleans, which "slowly sucked away what little life remained in the historic neighborhoods that surrounded it" and "threatened to turn all of Central City into the Calcutta of the Gulf South" (Tidmore 2001). Leaving some room for exaggeration in the black-hole metaphor, housing projects certainly depressed land values and encouraged middle-class flight from cities. This was a profound problem for cities, which, simultaneous with the degeneration of public housing, were experiencing progressively depleted fiscal bases due to four decades of out-migration to the suburbs of businesses and high-income residents (Wilson 2000, Katz 1999).

The experience of New Orleans, in this respect, has been characteristic of most U.S. cities. From 1970 to 2000, the City of New Orleans (Orleans Parish) lost 108,797 residents, 18% of its total population. During the same period its suburbs grew by 292,990 residents, or 55%. Those leaving the city tended to be white, relatively wealthy and employed. From 1970 to 1990, the median family income for Orleans Parish dropped by close to $4,000 (in real 1998 dollars), the unemployment

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[8]As an editorial in a New Orleans newspaper put it, "seeing is believing - and a middle-class family is the best education for a poor child that he need not remain that way all of his days" (Tidmore 2001).

rate climbed from 5.7% to 12.4% and the percentage of employed residents fell by nearly 10%. The corresponding indicators for New Orleans suburbs improved in nearly all categories (Appendix A). Currently, the median family income for Orleans Parish stands below $30,000, while that for the metropolitan area as a whole, including Orleans Parish, is $44,000.

Suburbanization, duplicated across the country, has resulted in the concentration in central cities of poorer residents, creating a situation in which those residents requiring the highest levels of social welfare expenditure are concentrated in jurisdictions with the weakest tax base — an unsustainable combination (Wilson 2000). It became progressively more difficult for cities to fund their basic services, and cities, including New Orleans, became increasingly dependent upon the federal government for funding. In this context increasing land values and attracting businesses and high-income residents back into central cities became the guiding imperative, not only of city officials, but of the federal government as well, which was keen to move cities once again toward fiscal self-sufficiency (Wilson 2000:24). The market agenda of HOPE VI dovetails seamlessly with this imperative, offering cities the prospect of doing away with the "gaping holes" in their urban markets.

The Conflict Within HOPE VI

The dominant tendency among public officials, policy makers and commentators has been to play down, or ignore altogether, the tensions that exist between the social and market agendas of HOPE VI. HUD's original name for the program, "HOPE VI Urban Revitalization Demonstration", depicts the goals of creating better "housing opportunities" for poor people and revitalizing inner-city markets as two sides of the same coin. Similarly, a mayoral report that studied demolishing and redeveloping public housing developments in New Orleans said its goals were "to improve the quality of life for residents *and* enhance the economic development opportunities in the area", as if the two were part of the same process.[9] Keith Butler, who first went public in 1993 with plans to demolish and redevelop St. Thomas, spoke of a win-win situation:

> The question is whether we should allow our commitment to populism and concern about the tenants to prevent a development that could mean so much to the city … In my view, the answer is yes we should, unless we can offer the tenants something better. My view is that we can offer the tenants much better housing than they have now, and we have an ability to offer the city some growth opportunities. So everybody could come out winners (Kelso 1993).

This belief in the inherent harmony between the social and market agendas of HOPE VI does not stand up even to casual scrutiny. To put it bluntly, poor people are bad for land values and for the capacity of localities to function well as markets. This became obvious during the negotiations over the percentage of public housing units the New St. Thomas would contain. The private developer saw quite clearly that public housing units in the new development would hurt profitability, both by taking up potentially market-rate space with subsidized units and by frightening off

[9] Iberville Housing Development Task Force 1989, 3, cited in Cook and Lauria 1995:541, emphasis added.

potential up-scale tenants. Private investors, holding the trump card of capital, refused point blank to finance any endeavor in which the percentage of public housing surpassed a certain threshold (STRC 2000b). The goals of inner-city regeneration—to increase land values and attract businesses, rentiers and wealthy residents—can be expected to suffer to the precise extent that poor people end up living in revitalized developments.

From the perspective of the social agenda, however, unless public housing residents *do* live in areas that are revitalized, the improvements to those communities will be largely irrelevant to them. Two other arguments have been put forward to make the case that public housing residents, even when displaced, can benefit from market regeneration. The first is that whatever helps a city to grow is ultimately in the best interests of all its residents, especially the most poor, since the city will thereby be in a better position to afford public services (Peterson 1981). For residents, however, who have had their communities dismantled in order to be displaced from one poverty-ridden, crumbling, crime-infested housing project to another, the supposed benefits down the road of a marginal increase in public services do not stack up altogether well against the prospect of living in a healthy, economically vibrant community, replete with job opportunities and amenities. Second, it has been argued that an improvement over traditional housing projects can be achieved by having displaced residents move into scattered, private apartments that are subsidized through HUD's Section 8 program. One problem with this option is that Section 8 tenants incur significantly higher living costs than do traditional public housing residents, particularly because they must pay utility bills. But the whole issue is rendered moot by the reality in almost all American cities of a near absolute lack of supply of Section 8-willing landlords. At last count in New Orleans, there was a Section 8 waiting list of more than 19,000 people, with only 30 apartments on Section 8 rolls. It is a statistic that essentially pre-empts the entire discussion of whether Section 8, in theory, is a viable alternative to public housing. In any case, neither displacement to another ghetto nor to Section 8 housing is at all compatible with the stated intention of HOPE VI, which is to create redeveloped, mixed-income communities *in which former residents will live*. For the social agenda of HOPE VI to be fulfilled, most residents must remain on site. And this, as we have argued, places the social and market agendas of HOPE VI in direct conflict with one another.

This conflict within HOPE VI does not, in itself, constitute a damning flaw in the program. For in principle, there clearly is room for compromise between the market and social agendas of HOPE VI. But it is important to recognize openly that that is what is called for: a compromise between directly opposing social forces.

The crucial issue, then, becomes the entity that will moderate between the competing interests of market regeneration and those of public housing residents. That entity, of course, is supposed to be government, which comes to the table owning the land in question, controlling zoning laws that need to be changed and offering millions in public funding to subsidize a for-profit endeavor. The trade-off is supposed to be that the private company receiving this preferential treatment will cater for the extra-market public good of public housing. All that is required for the balance of power in HOPE VI redevelopments to play out as described is that

government meet the basic condition of having the interests of public housing residents foremost on its agenda, so that it can leverage public resources against private capital in defense of those interests. And herein lies the problem.

Urban Mercantilism and Local Autonomy

As P. Peterson, J. Logan and H. Molotch have argued, city governments, because they are in competition with other localities for commerce and tax revenue, are structurally predisposed to favor initiatives that contribute most to aggregate economic growth within their jurisdictions (Peterson 1981; Logan and Molotch 1987). It would be difficult to over-state the importance of this growth-oriented approach to city governance in the United States. On electoral platforms in cities nationwide, irrespective of political party, the goals of "attracting business" and "improving the tax base" take center-stage. As an early student of post-war urban politics observed, "They could speak of nothing else" (Hunter 1953:214, cited in Logan and Molotch 1987:51). Despite (or perhaps because of) the near universal prevalence of this growth-oriented ideology, it does not yet have an established name. To fill the semantic gap, we propose the term "urban mercantilism", by which we mean the active intervention of local governments in the economy, most frequently through tax incentives, direct subsidies to businesses, political support and land-use decisions, to promote those activities that contribute most to economic growth within their jurisdictions. The benchmarks of success of urban mercantilism are somewhat different from those of its seventeenth- and eighteenth-century predecessor. Traditional mercantilism sought a favorable balance of trade and to amass precious medals within a nation, while modern-day urban mercantilism seeks to increase property values, attract businesses and high-income residents and maximize the local fiscal base. The underlying principle, however, is precisely the same: using government policy to enhance the economic position of a locality in order to increase its competitive position relative to other localities.

Urban mercantilism is particularly dominant in U.S. cities, for two reasons. First, in contrast to cities in most of the industrialized world, U.S. cities are funded almost entirely from local revenue, making competition for resources between localities especially intense. Second, U.S. cities have suffered from suburbanization to a greater degree than have cities in other countries, making their quest for a stable tax base more frantic. For the purposes of this study, the essential point about urban mercantilism is that it aligns the interests of local governments very closely with those of private capital. As Peterson has argued:

> cities, like private firms, compete with one another so as to maximize their economic position. To achieve this objective, the city must use the resources its land area provides by attracting as much capital and as high a quality of labor force as is possible. Like a private firm, the city must entice labor and capital resources by offering appropriate inducements (1981:29).

Some scholars, such as Peterson, see little problem in this arrangement, since he believes economic growth is a "collective good", which works to the "benefit of all residents" (1981:147). Others, such as Logan and Molotch, who "are certain that local economic growth does not *necessarily* promote the public good", argue that the "growth machines" that result from the alliance between economic elites and local

governments benefit primarily those elites, to the detriment of most city residents (1989:34). There is not space here to enter the debate over "city limits" and "growth machines". But regardless of the position one takes in this debate, one thing should be entirely uncontroversial. Because of their tendency toward urban mercantilism, city governments are the very last institutions that are in a position to moderate even-handedly between growth interests and a social agenda.

In HOPE VI, however, that is precisely the role city governments are expected to play. Indeed, HUD has gone out of its way to design the program to give as much discretion as possible to the city level. As Article 2 of the HOPE VI Implementation Grant Agreement says, "HUD intends to respect local decisions to the fullest extent possible under existing laws" (HUD 1997:2), an intention that is reiterated throughout HUD's literature on the HOPE VI program.[10] Toward the stated objective of fostering "innovation and diverse approaches", there are very few limits to how HOPE VI funds can be used to redevelop housing projects. Nearly every aspect of redevelopments is meant to be decided through local negotiations, subject to subsequent approval from HUD. What this means, in practice, is that the balance between the market and social agendas in HOPE VI projects is decided by the outcome of a three-sided power struggle involving city governments, private developers and residents. Because of the pressures of urban mercantilism and the structural alignment of "cities' interests" with those of private capital toward the goal of maximizing land values and tax revenue, this negotiating triangle is heavily, and inherently, lop-sided toward the market agenda. The extent of local discretion in HOPE VI creates considerable room for urban mercantilism to dominate the negotiation process against the interests of public housing residents.

We turn now to how this negotiation process played out in the case of St. Thomas.

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[10] Article VIII of the Grant Implementation Agreement, for example, states: "The HOPE VI demonstration program provides resources … within an administrative framework of less intrusive federal oversight and increased reliance on informed local decision making" (HUD 1997). HUD's intention with HOPE VI is similar to the "new federalism" of the Community Development Block Grants of the 1970s, the goal of which was said to be to move "power from the banks of the Potomac to the people in their own communities" and which also were meant to "provide decent housing [and] expand economic opportunities for persons of low and moderate incomes" (Logan and Molotch 1987). Logan and Molotch discuss how the social aims of the program were progressively undermined, because "the discretion given to localities provided the opportunity for growth machine governments to deflect the grants to other purposes. … Although cities were at times required to invest the bulk of their block grant money in low or moderate income neighborhoods, there was no requirement that low or moderate income *people* benefit from the expenditures…Over time … grant money was spent on everything from landscaping marinas to building tennis courts in affluent suburbs" (172).

3 URBAN MERCANTILISM IN ACTION

In a 1999 study of the St. Thomas HOPE VI, A. Reichl found that "perhaps the most striking fact" about the redevelopment was "the significant impact the residents themselves had on the planning process and the development agenda" (Reichl 1999:177). Based on the development plans of 1998, on which Reichl based his study, the conclusion could be justified. Four years later, the residents are scattered throughout New Orleans, and their representative body, the St. Thomas Resident Council (STRC), has withdrawn itself in disgust from any further contact with the developer, in protest at the way St. Thomas residents' interests have been undermined and powerless to influence a deal that has the full weight of city government behind it. A full account of this process, which included a string of broken promises, buying off members of the resident council and their advisers (Eggler 2002) and the active intervention of HUD against the residents, would make for an informative look into how urban mercantilism functions on the ground. This chapter will confine itself to several key moments in that process, to give a sense for the extent to which the St. Thomas HOPE VI betrayed promises given to residents and to reveal the perhaps surprising fact that the reach of urban mercantilism extended in this case beyond New Orleans' "city limits" (Peterson 1981) to the federal government itself.

Prime Land, Empowered Residents

The basic precondition to understanding the St. Thomas redevelopment project is an appreciation of the value of the St. Thomas land. As Reichl has summarized:

> The St. Thomas development is, in effect, a crucial missing link needed to complete an unbroken chain of economically valuable city neighborhoods. This economic spine begins with the gentrifying Faubourgh Marigny and extends upriver through the French Quarter, the CBD, the convention center area and the Warehouse District, and the Garden District, and it proceeds uptown along St. Charles Avenue, Prytania Street and Magazine Street. St. Thomas is situated in the Lower Garden District, in the middle of the chain between the Warehouse District and the Garden District (Reichl 1999:173).

Due to its prime location, pressures to gentrify the area were intense — something the residents understood early on. As a document of the resident council says, "It was recognized that the buildings were not the most critical thing in St. Thomas, it was the land that was truly valuable and that the residents of St. Thomas most needed to defend" (STICC 1997).

When plans initially were floated in the early 1990s for a comprehensive redevelopment of St. Thomas, the St. Thomas Resident Council (STRC) was considered by local developers and city officials as a force to be reckoned with. The STRC had cut its political teeth in 1982 with a takeover of HANO's main office to protest poor living conditions, followed by a protracted rent strike that resulted in a $21-million rehabilitation grant from HUD (Reichl 1999:179). A few years later, the STRC, fed up with the poor quality and lack of resident control over the vast network of social service providers active in the St. Thomas area, called all the

service agencies to a meeting. STRC president Barbara Jackson addressed them as follows:

> We the community decided to put the agencies on alert. Whether you realize it or not the community has been watching you. It's time for some of you to do better than you have done in the past. … Yes, the community realizes its mistake of letting you (the agencies) go this far without calling you the agencies to the table. It's our fault because we have lacked in making you accountable. This is a new day, the leadership of the community is now ready to make you responsible for those things that you agreed to do…. In this self-determination process we as a community are determined to move forward, with some of [you] if you are willing to work with us as a collective (Cited in Reichl 1999:179).

The resident council went on to inform the agencies that, unless they agreed to an "accountability statement" committing them to "a process of power-sharing in decision making, accountability to residents, and addressing institutional and individual racism," the STRC would write a letter to each of their funders requesting that its funding be cut off (STICC 1997). The result was the formation of the St. Thomas/Irish Channel Consortium (STICC), a consortium of about a dozen service providers and community organizations, over which the STRC retained veto power. It was this history of militancy and empowerment that gave the STRC a great deal of influence over the initial plans to redevelop its community.

Although there had been a general proposal since 1986 to move toward abolishing public housing complexes in New Orleans[11], specific plans for St. Thomas were set in motion by Joseph Canizaro, a local developer, banker and property owner. Canizaro did not intend personally to redevelop St. Thomas, but he had plans for a massive redevelopment of the riverfront area nearby, the success of which clearly would depend upon "doing something" about St. Thomas. Called RiverPark, Canizaro's development would combine upscale housing, entertainment and commercial development, and would include a riverfront promenade, an extension of the riverfront streetcar line into the Lower Garden District and a new residential district in converted warehouses bordering St. Thomas (Reichl 1999:174; Thomas 1995). Canizaro was aware that the opposition of the well-organized and vocal STRC could kill or delay his plans, so he approached the resident council early on. Canizaro was up-front about the fact that his interest in St. Thomas was to make money, an honesty that earned him the respect of the residents.[12] A deal was struck between the market and social agendas behind redeveloping St. Thomas: the residents would work with Canizaro and support his RiverPark plans, and he would help them develop a master plan for St. Thomas that directly reflected their interests and desires. Canizaro also was the president of a nationally influential planning organization, the Urban Land Institute (ULI), and he was as good as his word. In

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[11] This goal was outlined in the "Rochon Report" of 1986, which recommended razing up to half of the city's public housing units (Cook and Lauria 1995:541). The report's author, Reynard Rochon, was the campaign manager for then-Mayor Sidney Barthelemy. Barthelemy is currently on the board of directors of Historic Restoration Inc, the developers of the New St. Thomas.

[12] According to a STRC document, Canizaro "was more honest and forthcoming than were many of the liberals. A bond developed between him and the community around that honesty. He was honest that he wanted to make money and he also said he wouldn't do anything that the STRC wouldn't approve of" (STICC 1997).

1993 he commissioned the ULI to draft a master plan for the St. Thomas redevelopment, which incorporated maximal in-put from St. Thomas residents.

Original Plans

The ULI master plan made several specific proposals, which subsequently were incorporated into the HOPE VI Grant Application (ULI 1993):

- St. Thomas would be redeveloped as a mixed-income community, overhauling old units and building new ones to attract market-rate tenants and homeowners;

- St. Thomas would be reconnected with the rest of the Lower Garden district, by removing the physical barriers that define the existing development and designing the community to make it indistinguishable from the surrounding area. Nearby streets would be extended to once again pass through St. Thomas;

- The density of the site would be reduced from 1510 to 900 units, 150 of which would be for-sale homes;

- 50 percent of all units, including the 150 for-sale homes, would be reserved for very-low-income residents to promote socio-economic diversification;

- The resident council would become a 51% owner in a joint venture with a private developer to redevelop St. Thomas, to ensure residents were empowered and their interests were protected;

- Resident-owned and operated stores, including Laundromats, convenience grocery, and dry cleaners, would be developed; and

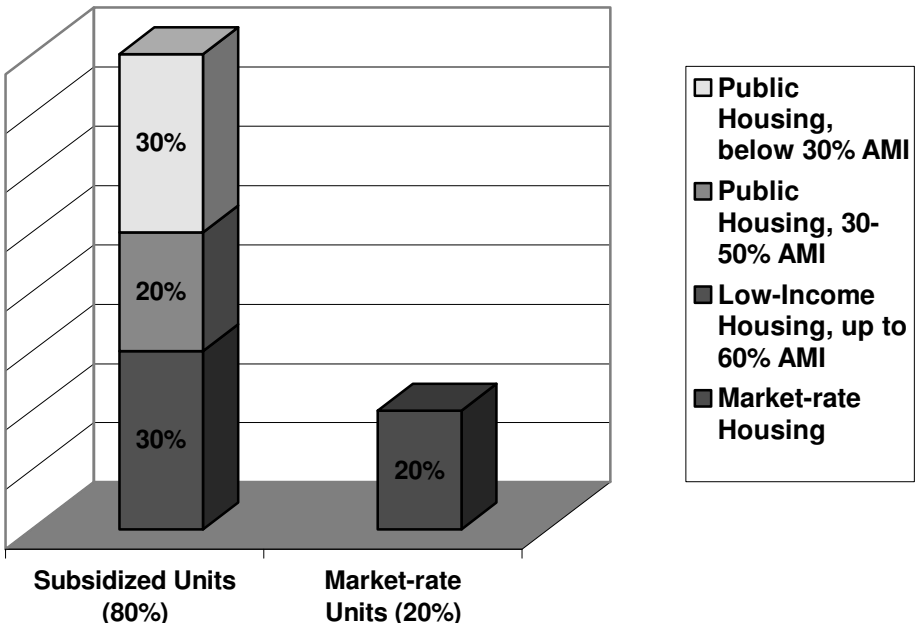
- The St. Thomas Resident Council would be involved in all aspects of planning and designing, construction, management and maintenance.

There was widespread, if cautious, community support behind these proposals. In the St. Thomas community newsletter "What's Happening!", the redevelopment was called a "buyout" and an article on the ULI plan was entitled, "Can it really happen? Do you want it?" (STICC 1994). But despite articulating concerns about gentrification, the newsletter came down in support of the project, stressing that residents would have majority ownership control and significant management control over the new development, giving them the power to defend their interests. Crucially, the ULI plan and the residents' vision for the New St. Thomas was not for a "social experiment", in which luxury residents would be "living next to welfare mothers", as the project later was described by Historic Restoration Inc chief executive Pres Kabacoff. The goal was less dazzling: to create a functioning, working-class neighborhood, in which public housing residents were not singled out

or stigmatized and which offered "good housing, proper maintenance and upkeep and many of the other benefits that people who don't live in public housing take for granted" (STRC 2000a).

With only a few minor changes, HANO's 1996 HOPE VI Grant Application to HUD incorporated the ULI plan, fleshed out by two other studies by local planners and architects (HANO 1994; Wallace Roberts & Todd 1995.) The overall number of units was reduced from 900 to 775; the resident management arrangements were made more explicit, proposing the development of a Resident Management Corporation (RMC); and the 50-50 split between public housing and other units was further specified to reserve 60% of the public housing units for extremely low income tenants (earning below 30% of median family income) and 40% for very low income tenants (earning 30-50% of median family income). Also, 30% of the overall number of units would be Low-Income Housing Tax Credit (LIHTC) units, renting to tenants who earned up to 60% median family income. Market-rate units would constitute 20% of the development. Table 1 illustrates the income mix for the New St. Thomas, as proposed by the HOPE VI Grant Application and approved by HUD when it allocated HOPE VI funding:

Table 1: Income Mix, HOPE VI Grant Application
(Sources: HANO 1996c, HANO 1997a)



The ownership arrangement, in which residents would own 51% of the new development, remained intact (HANO 1996a:15; HANO 1996b:3, 4, 9, 12). In 1996, on the strength of this proposal, HANO won a $25 million HOPE VI grant from HUD to implement these plans.

Smoke and Mirrors

A decisive shift in the orientation of the New St. Thomas occurred during the extremely controversial developer selection process. The original panel to select a

developer was composed of three St. Thomas residents, three HANO employees, one representative of the mayor's office and one non-resident member of STICC. In 1997, through competitive tender, the panel chose Creative Choice Homes, a Florida developer, whose development plans retained the proposals set out in the HOPE VI Grant Application. A year later, HUD intervened with a move that residents still discuss with disbelief. After a federal audit of the selection process, prompted by a single anonymous complaint from a St. Thomas resident, HUD declared the contract with Creative Choice Homes null and void and instructed HANO to re-open the developer tender process.

HUD's justification for pulling the contract was as follows: it was alleged that there was an apparent, although unsubstantiated, conflict of interest in that one of the residents on the selection panel subsequently received a loan from Joseph Canizaro's bank; that there was an "inherent conflict of interest" in the fact that the developer to be chosen was expected to hire public housing residents as employees; that the residents "did not appear qualified to choose a developer"; and that the housing authority "lost control over the selection because it allowed five individuals on the eight-member selection panel who were not Authority employees" (HUD 1998). Most of these concerns are nothing short of bizarre. For the first "apparent" conflict of interest to have any relevance, some link would have to have been established between Canizaro and Creative Choice Homes, but no such link ever was established or even alleged. The second "inherent" conflict of interest, that the developer would hire residents, already had been approved officially by HUD when it accepted the HOPE VI Grant Application, which explicitly encouraged the hiring of residents to give them job opportunities. It would seem, then, that the decisive grounds for HUD's overturning of the developer selection was that the residents were found to have had too much influence determining the future of their own community. HUD's investigative report confirms this view. "The problems with the developer", the audit report concluded, "resulted from the Authority's proactive interpretation of resident participation" (HUD 1998). This, despite the fact that HUD's guidelines for the HOPE VI process stipulate that "Residents shall be actively involved in a Housing Authority's decision-making process" (HANO 1998).

In the new round of developer selection, HANO freed itself from accusations of a "proactive" approach to resident participation by excluding the residents entirely. The panel consisted of four HANO officials and one appointee of Mayor Marc Morial. There was widespread speculation among the residents that "the fix was in" to select Historic Restoration Inc (HRI), whose CEO, Pres Kabacoff, was a friend and financial supporter of Mayor Morial.[13] To the residents, Kabacoff embodied the gentrifying agenda against which they were fighting. He had achieved notoriety among St. Thomas tenants several years earlier, by stating at a meeting, with the STRC in attendance, that the St. Thomas development was "in the way" of a plan to regenerate "everything from the Warehouse District to the Zoo", and thus would have to be leveled. In the months preceding the developer selection, STRC President Barbara Jackson wrote to HUD Secretary Andrew Cuomo on two occasions to express concerns that the new selection process was designed to funnel

[13] Records show that Kabacoff's company had contributed $44,000 to Morial's two previous election campaigns (Varney 1998).

the job to Kabacoff and HRI. While previously a single letter of complaint from an anonymous source had triggered a full-scale federal investigation, this time Cuomo did not respond to either of Jackson's letters. Included in HRI's proposal packet was a letter from Mayor Morial himself, recommending HRI's bid (Morial 1996). Despite the fact that Morial directly had appointed one of the panel members, this was not deemed a conflict of interest. In October 1998, "in a remarkably close contest", HRI was awarded the contract to redevelop St. Thomas.[14]

The selection of HRI marked the turning point in the HOPE VI redevelopment toward a complete perversion of the original grant proposal. When HRI hired Shelia Danzey to head up the St. Thomas work, the battle lines were drawn. Danzey had been head of HANO under its first private management contract and, according to a former STICC member, was one of the "least well-liked" persons in the city among public housing tenants, for her "bulldog reputation" when it came to dealing with disaffected tenants. At this point, however, fatigue was setting in for the residents. The HOPE VI process had been going on for six years, and the STRC, with no salaried staff and having lost many of its advisers, was losing its capacity to turn out big numbers at resident protests. St. Thomas, meanwhile, was progressively being depopulated for demolition, further decreasing the residents' ability to mobilize.

The subsequent negotiations followed an established pattern. HRI would insist that its investors refused to fund the project if some aspect of the grant application remained in place; the residents would protest; and HANO would side with the developer, approving revisions that ultimately would be accepted by HUD. HANO was under intense pressure to get the project underway. Since the 1980s, HANO had been considered by HUD to be one of the worst run housing authorities in the nation, consistently receiving scores in the 20s out of a possible 100 points, with a 60 needed to pass (Reichl 1999:172). In 1994 HANO narrowly escaped a federal takeover, by agreeing to operate under special federal oversight. By the time HRI's revisionism was in full swing, the St. Thomas redevelopment had dragged on for four years since the HOPE VI grant had been won, without a single unit demolished, never mind rebuilt. If HANO failed to deliver on the St. Thomas HOPE VI, its chances of escaping federal receivership and receiving any further grants from HUD would be seriously compromised. HANO, as a result, consistently chose the path of least resistance, which in practice meant the path of HRI, because it had access to capital and the residents did not.

During the course of the subsequent three years, the resident ownership and resident management arrangements stipulated in the grant application were dropped entirely. The number of on-site subsidized units was reduced from 563 to 258. Most of the 258 subsidized units were shifted considerably up the income scale, and 149 of them were to be single-bedroom apartments, housing very few residents. The number

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[14] According to the *Times-Picayune*, which successfully sued the city to gain access to the documents recording the developer selection process, HANO's scoring reports revealed that HRI's written proposal ranked significantly lower (by 13.55 points) than the proposal of another company. In its oral presentation, however, the most subjective part of the selection process, HRI staged a dramatic comeback, picking up 13.8 points on its competitor to win the contract by a margin of .12 points (Varney 1998).

of market units, meanwhile, was increased by 317%, from 212 to 884. These would include 414 units with rents between $850 and $1400 per month, an assisted living tower of 312 units for elderly tenants for $3,000 per month, for-sale homes at an average of $161,000 and 100 luxury condominiums selling for between $300,000 and $400,000. This was hardly the plan for a working-class neighborhood the residents had endorsed, in which public housing tenants would not feel singled out or stigmatized.

HRI justified these changes by passing the buck to its investors, arguing that the original proposal simply "did not add up". Previously, the residents had been able to match this sort of number crunching with calculations of their own, through the help of their technical advisor, Vince Lane. Brought on board by Canizaro early on in the process, Lane already had a successful HOPE VI project in Chicago under his belt. He was, according to a former member of STICC, an immeasurable help to the residents in the early stages, by pointing to other HOPE VI projects to show how the development could indeed contain a large number of public housing units and still "add up". By the time negotiations with HRI had reached their crucial stage, however, Vince Lane's services were no longer at the disposal of the residents — he had been hired to work for HRI.

In order partially to compensate for the 305-unit shortfall of on-site low-income units, HRI proposed to build 100 off-site units. The funding for these units, however, would not come out of the HOPE VI grant, because HRI claimed, incredibly, that "the funding for developing off-site housing under the HOPE VI grant was not available" (HRI 2000). HRI was arguing that because the company had decided to move units from an on-site to an off-site location, HOPE VI funding thereby was not available for their construction, even though the total number of units constructed would be 205 fewer than those for which HOPE VI funding was allocated. The only thing more striking than this claim was the fact that HUD made no objection, approving the Revitalization Plan without comment. Kabacoff said he had "every intention" to build the 100 units, but was "unable to guarantee anything" until additional funding could be found (*Times-Picayune* 2001b).

The proposed method for finding that funding is curiously self-serving. The plan is to bring a Wal-Mart Supercenter to land adjacent to St. Thomas and create Tax Increment Financing (TIF) and Payment in Lieu of Taxes (PILOT) districts, which will divert the Wal-Mart's sales and property taxes from the city to the development for the next 25 years. This will result in an additional public subsidy of $20 million to the development. To sweeten the sugar-cube for Kabacoff, most of the land on which the Wal-Mart will be built has been bought up in the last few years by none other than HRI, including 4.5 acres that will be bought from HANO at $6.33 per sq. ft and resold to Wal-Mart for $17.50 per sq. ft, amounting to a further $2 million subsidy to the project. Kabacoff's company is set to make $5 million from its sale of commercial land (Appendix E). In April of 2002, the New Orleans City Council granted its unanimous approval to the creation of the Wal-Mart TIF and PILOT districts, "to help poor people have a better life" (New Orleans City Council 2002).

The nail in the coffin for any hopes that the St. Thomas HOPE VI would "help poor people" in any meaningful way came in how the project's "public

housing units" were defined. Throughout contracts and agreements, HRI referred very infrequently to "public housing" as such, preferring the term "low-income units" and checking boxes that read "P/H:LIHTC", or public housing/low-income housing tax credit units. The reason becomes clear if one comes across page thirteen of HRI's "Mixed Finance Development Proposal", submitted to HUD in 2001, where HRI reveals the following:

> It is expected that HANO will not provide public housing operating subsidy for the housing units under its existing St. Thomas Consolidated Annual Contribution Contract … A separate Annual Contributions Contract (ACC) will be entered into between HUD and HANO…. The incomes of families served by these units will not exceed sixty percent (60%) of the Greater New Orleans area median in order to comply with LIHTC restrictions (HRI 2001a:13).

The "public housing units", in other words, are not public housing at all, but low-income housing tax credit (LIHTC) units, which rent to significantly higher-income tenants (GOA 2002). According to HUD, the area median family income (AMI) for Greater New Orleans is $44,000 for a family of four, 60% of which is $26,400 — an income level public housing tenants in New Orleans do not remotely approach. Average income for all HANO tenants is $7,672, or 17% of AMI, while for former St. Thomas residents average income is under $5,000, 11% of AMI. $26,400 also is out of reach of over 99% of families on HANO's waiting list for public housing (Appendix B). HRI has promised verbally that it will reserve 40% of the subsidized units for households with an income below 30% of AMI and 20% of subsidized units for households below 50% of AMI. Assuming HRI keeps this promise—a bold assumption—the New St. Thomas will contain 70 units for an income category (below 30% of AMI) into which fall 99% of the 806 former St. Thomas households.[15]

A fairly good approximation of the extent to which the St. Thomas HOPE VI will "improve the living environment" of former residents can be arrived at by examining Table 2, which compares the number of former resident households by income category to the number of corresponding units that will be available at the New St. Thomas. Each double-column represents an income category by percentage

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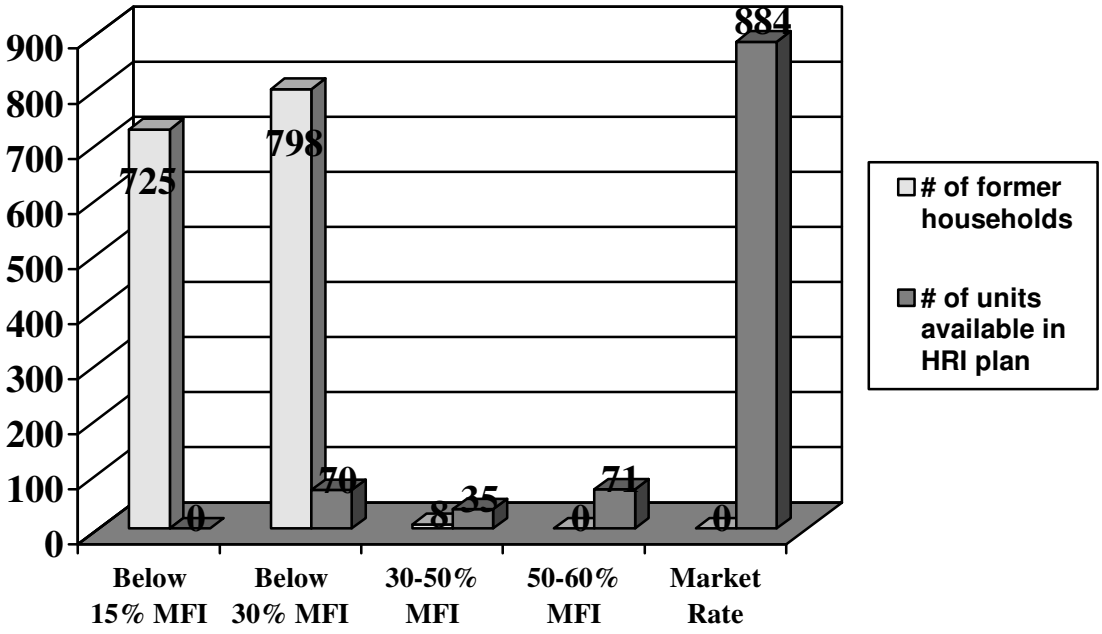
[15] A further implication of conflating "public housing" units with "LIHTC" units is that it allows the developer, HRI, to receive a double public subsidy for each low-income unit created. Ordinarily in HOPE VI projects, as the U.S. General Accounting Office explains, "the federal government pays the total development costs up front with grants; as a result, the development subsidies are equal to the total development costs" (GOA 2002). In the St. Thomas HOPE VI, however, the developer is receiving subsidies far above the HOPE VI grant to create HOPE VI units. The reason is that all the low-income units in the development (including off-site units) are being counted twice, once as "public housing" to make them eligible for HOPE VI grant money, and again as "LIHTC units", to make them eligible for tax credits. Indeed, sixty-seven Section 202 elderly units are being counted three times, toward eligibility for the HOPE VI, LIHTC and Section 202 programs. The result is that LIHTC equity investors are receiving tax credits against their federal tax liability for financing the development of units for which federal money already has been allocated. The effect of this double (and sometimes triple) public subsidy is to render exorbitant the cost to the public sector per low-income housing unit in the St. Thomas HOPE VI, in the range of $325,000 (See Appendix F). This includes only housing-related costs, not additional public money for infrastructure, demolition, resident services. The cost to private sector investment for the development of for-profit units is far lower, in the range of $110,000.

of area median family income (AMI). The left side of each income column depicts the number of St. Thomas families at the time the HOPE VI grant was approved; the right side represents the number of units available to that income category according to HRI's "Mixed Finance Development Proposal":

Table 2: Number of Former St. Thomas Families vs. Number of Reserved Units, by Income Category
(Sources: HANO 1996c, HANO 1997a, HRI 2002)



As the graph reveals, HRI's plans set aside only 70 units for the 798 former St. Thomas families that earn below 30% of median family income.[16] Seventy-one units will be reserved for families earning 50-60% of AMI, the highest end of the subsidization scale, even though no St. Thomas families fall into that category. Meanwhile, 884 up-scale units, clearly will be inaccessible to former St. Thomas residents, will be available for market-rate tenants, an increase of 317% on the 212 units proposed in the original development plans. There is no separate provision set aside for families earning less than 15% of AMI, which constitute 90% of former St. Thomas households. Whether any of these 725 households get access to the 70 units available—beside the point, really, considering the absolute shortage of units—will be entirely at the discretion of HRI, which will control the resident selection process. HRI, unilaterally and over the objections of former residents, has drafted "eligibility requirements" for residency that include employment, steady-income, behavioral and housekeeping requirements.

In an interview in 2000 HRI's Shelia Danzey announced magnanimously to the press that "every resident has the right to return" to the New St. Thomas (Stuart

[16] It should be noted that it cannot be assumed that former St. Thomas residents actually will receive the 70 units that fall within their income bracket. During negotiations, HRI and HANO consistently rejected resident proposals to reserve units for specifically for former residents.

2000). What she did not mention is that this "right to return" is contingent upon residents meeting the acceptance criteria (which few do) and upon there being a unit available for them (which, in almost all cases, there will not be).

Under normal circumstances, HRI's proposed income levels would be illegal for public housing, under Section 16(b)(2) of the 1937 U.S. Housing Act, which stipulates that "not more than 25% of the dwelling units in any project will be available for occupancy by low-income families other than very low-income families." It is here, however, that HOPE VI's devolved decision-making structure and quest for "innovation" comes to the fore. As outlined in Article VIII of HUD's "HOPE VI Implementation Grant Agreement",

> Section 24[17] permits the Secretary to waive or revise regulations governing rents, income eligibility and other areas of public housing management to permit Grantees to undertake measures that enhance the long-term viability of severely distressed public housing (HUD 1997:12).

HUD's decision to waive income eligibility regulations in the case of St. Thomas is open to legal challenge, for contravening the statutory provisions of the 1937 U.S. Housing Act.[18] Thus far, however, there has been no move to sue HUD over the St. Thomas HOPE VI. What is certain is that HUD's practice of waiving existing regulations opens the door to the quiet manipulation of income levels by which HRI substantially has reduced the number of public housing units at the New St. Thomas. In 2001 HUD approved HRI's "Mixed Finance Development Proposal", yet again clearing the way for the ascendancy of the market agenda of HOPE VI against the interests of public housing residents.

The public sector's complicity in the distortion of the original HOPE VI proposals has gone beyond passive acquiescence and an uncritical acceptance of whatever HRI put forth. HANO, for its part, has offered active ideological support, by hiding from public view the basic realities of the project. HANO's project manager for the redevelopment, Ken Cutno, still insists that "there is no difference at all" between the original HOPE VI Grant Application and the current redevelopment plans.[19] By HANO's calculations, that almost would appear to be the case. In

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[17] The reference is to Section 24(e) of the 1937 U.S. Housing Act, as amended by section 120 of the Housing and Community Development Act of 1992.

[18] Chapter 120, Sec. 11504 of the Housing and Community Development Act forbids HUD from waiving regulations that "directly violate a statutory requirement." Elsewhere in the HOPE VI Implementation Grant Agreement, HUD admits openly that it "does not have the authority to waive this statutory provision" that no more than 25% of units be available for families other than very low-income families. As HUD goes on to say, however, it "has not issued implementing regulations" (HUD 1997: VIII, 2(c)). If a legal case were to be made against HUD for its role in the St. Thomas HOPE VI, it would probably be on these grounds. A very strong case also would exist against HUD for accepting a HOPE VI grant proposal for one project, then subsequently approving implementation of a dramatically different project, without fulfilling public hearing requirements (Title 42, Section 8, Sec. 1437bbb.)

[19] Interview with Ken Cutno, 2002, 29 April. Mr. Cutno informed me that I "was wasting [my] time" by requesting the original HOPE VI grant application, because the current development plans were identical. The fact that HANO officials, after searching for three hours, were unable to find that grant application indicates just how closely they had been following its stipulations. Ultimately, I was able to receive the document from HRI.

January 2002 HANO issued a colorful one-page leaflet summarizing the St. Thomas Revitalization Plan. It imparts the following information:

Income Mix

- Market Rate Units 60%
- Public Housing Eligible Units 40%

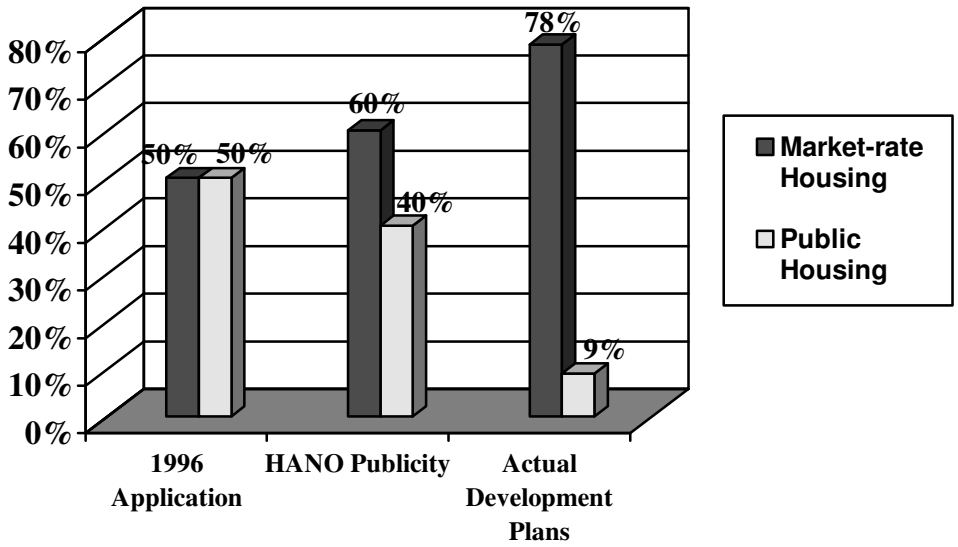
(HANO 2002, Attached as Appendix C)

These figures are still shy of the 50% public housing units called for in the grant application, but HANO officials have explained that they did not get the full $40 million grant requested from HUD, so a moderate scaling back was required.[20]

Disregarding for a moment that most of these "public housing" units are nothing of the kind, a closer inspection of HANO's leaflet reveals that this "income mix" has been calculated in an extraordinary way. The calculations, as the fine print reveals, have excluded the 312-unit upscale retirement center, the 58 market-rate for-sale homes and the 100 luxury condominiums from consideration, thus ignoring more than half the number of market-rate units on site. Doing the math, it becomes clear that HANO also has *included* the still-dubious 100 off-site low-income units in its calculations to determine the "income mix". No explanation is offered for why 100 apartments scattered throughout the city of New Orleans count as part of the "income mix" at the New St. Thomas, while 470 market-rate units located directly on site do not. Even after these distortions, HANO has rounded up from 37% to arrive at the 40% figure. The real income mix of the redevelopment, as detailed in Table 3, is 78% market-rate units and 22% subsidized units, if one counts all the units that receive any subsidy at all. If one considers as "public housing" only those units for households below 50% of AMI—as seems reasonable, considering all St. Thomas residents are in this category, along with more than 99% of public housing tenants citywide—the percentage of on-site public housing drops to 9%. This is a far cry from the 60-40 split HANO uses to promote the project.

[20] Comments by George C Miller, Jr., HANO's current administrative receiver (New Orleans City Council 2002).

Table 3: Income Mix, 1996 HOPE VI Application, HANO Publicity Documents and Actual HRI Development Plans
(Sources: HANO 1996abc, HANO 1997a, HANO 2002, HRI 2002)



To summarize, the differences between what ultimately is being built and what was stipulated in the HOPE VI grant application are as follows:

<u>Ownership</u>

- The promised ownership arrangement, in which residents would be a 51% partner in the redevelopment, has been abolished, in favor of full ownership control by a subsidiary of the developer;

<u>Management</u>

- The promised management arrangement, in which residents would manage the site through a Resident Management Corporation and control resident selection, has been abolished, for full management and resident-selection control by a subsidiary of the developer;

<u>Commercial</u>

- The proposal to have small-scale, resident-owned and operated stores as part of the development has been replaced by a plan to bring in a 215,000 sq ft Wal-Mart Supercenter, in which the residents will have no equity share (although the developer will reap a 20% profit from its investment in the retail site);

<u>Income Mix</u>

- The percentage of on-site public housing has been reduced from 50% to 9%; the percentage on-site subsidized units (including public housing and low-income units) has been reduced from 70% to 22%;

Low-income and public housing units

- The number of on-site rental units reserved for households earning below 30% of AMI has been reduced from 176 to 70; the number of units reserved for households earning between 30 and 50% of AMI has been reduced from 116 to 35; the number of units for up to 60% of AMI has been reduced from 176 to 138, including 67 single-bedroom units for the elderly, which will house relatively few residents (assuming, in each case, HRI keeps its word from this point forward);

Market-rate housing

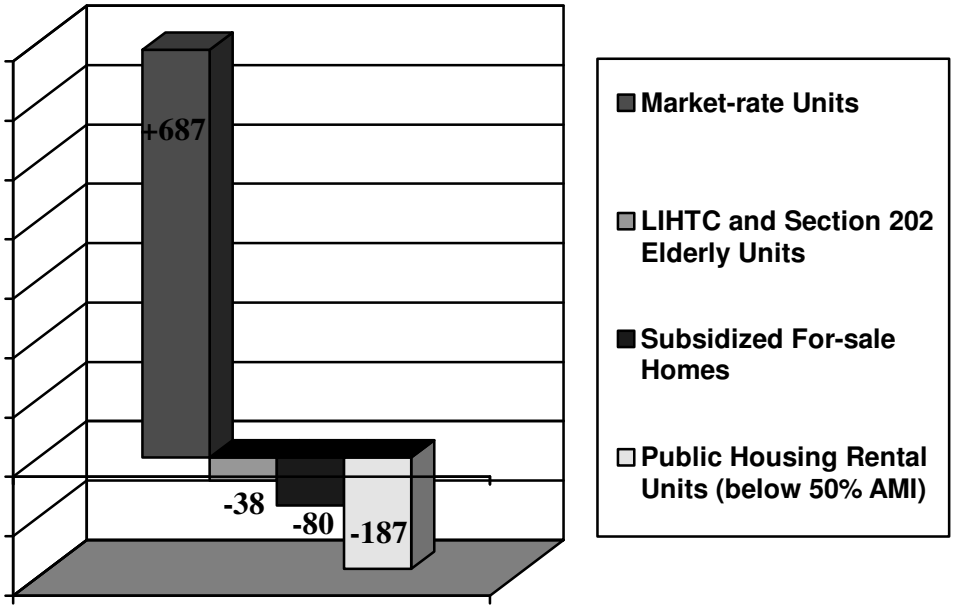
- The number of on-site market-rate rental units has been increased from 212 to 884;

Homeownership

- 95 for-sale homes for public housing residents have been replaced with 15 homes for first-time buyers

Table 4 illustrates the divergences between the original HOPE VI Grant Application and the actual HRI development plans, broken down by housing type.

Table 4: Differences between 1996 HOPE VI Grant Application and Actual HRI Development Plans, by Housing Type
(Sources: HANO 1996abc, HRI 2002)



In short, the final St. Thomas development plans represent a radical betrayal of what originally was agreed upon with the St. Thomas Resident Council. The Resident Council recently broke off all negotiations with HRI, after the company said it was

unable to guarantee even the curtailed number of minimally subsidized units described above (*Times-Picayune* 2001b).

The Role of Government

Despite this wholesale perversion of the original proposal for which HOPE VI funding was allocated and on which resident support for the project was based, government at every level has continued to support the project without a hint of criticism. HANO, over the objections of the residents, has agreed time and again to the developer's revisions, and HANO's creative misrepresentation of what actually is being built has been crucial to insulating the project from public criticism. HUD nullified the residents' preferred choice for a developer and approved the new developer's "Revitalization Plan" (2000) and "Mixed Finance Development Proposal" (2001), without comment or objection, despite the fact that these proposals amounted to a fundamentally different project from the one for which HUD originally allocated HOPE VI funding. The New Orleans City Council changed the necessary zoning laws and created TIF and PILOT districts to further fund the project, without requiring that the called for amount of public housing be created. The Louisiana State Bond Commission approved a $29 million bond issue to help capitalize the redevelopment, over the objections of one Senator, Paulette Irons, who pointed out that "this is almost as if it is a farce", since "the housing on site will be too pricey for the poor" (*Times-Picayune* 2001a).

At the same time government has funded the project to the hilt, with an enormous public subsidy for what is, overwhelmingly, an up-scale, private development. The total government outlay is far greater than the $49 million estimated by HANO in its one-sheet glossy on the New St. Thomas, which, inexplicably, excludes nearly half the government subsidy involved. Not including the $4 million to be spent on services for St. Thomas residents, total government expenditure includes the following (emphasized items indicate funding not counted by HANO):

- $25 million from the original HOPE VI grant;
- $4 million from HUD's HOPE VI demolition grant;
- $4.7 million from HUD for the Section 202 Elderly housing (for 64 units)
- $6.2 million from HANO's Comprehensive Grant Program (CGP), which HANO is diverting to the St. Thomas redevelopment from its other properties;
- $6 million from the City of New Orleans, for infrastructure;
- $8 million from the State of Louisiana;
- *$20 million from the City, in the form of Tax-Increment Financing (TIF) funding;*
- *$1.8 million from the City, of Payment in Lieu of Taxes (PILOT) funding;*
- *$380,000 in City of New Orleans "Home Funds"*

- *$7 million (estimated) from HANO, for the 49 acres of St. Thomas, given to HRI on a 99 year ground lease for the token fee of $1 for every unit on site ($1139);*
- *$1.6 million from the sale of HANO land to Wal-Mart, earmarked to fund the promised off-site housing;*
- *$2 million from the 4.5 acre HANO/HRI/Wal-Mart land flip, bought from HANO at $6.33/sq ft and resold to Wal-Mart at $17.50/sq ft;*
- *$11 million in lost revenue to the federal government from Low Income Housing Tax Credits;*
- *$ 2.7 million for below-market loan to HRI [221(d)4 tax-exempt bond]*

These contributions total more than $100 million of public money, for a project that will create 358 units of low-income housing, only 169 of which are public housing units on the St. Thomas site. That amounts to $389,777 of public funds for each subsidized unit. For the amount spent, HANO could have done away with the entire HOPE VI facade, sold the St. Thomas land to HRI outright and bought each of the 806 St. Thomas families a house worth $121,000, which would buy a comfortable home in most areas of New Orleans. Alternatively, and more prudent for protecting HANO's investment and meeting the long-term public housing needs in New Orleans, HANO could have created a healthy, working class, mixed-income community at the St. Thomas site, as the original grant application called for. Instead, the City, the State, HANO and HUD have collaborated to use funds allocated specifically to "improve the living environment for public housing residents" in order to provide a massive government subsidy for an up-scale, private development, with minimal public housing.

Outcomes and Consequences

For former residents, the outcome of the St. Thomas HOPE VI is what they feared from the beginning and were assured would never happen — wholesale displacement. With the project's strict selection criteria and with 70 units "promised" to the income category in which 99% of the 806 St. Thomas families fall, the vast majority of former residents clearly will not return, whatever HRI says about their "right" to do so. About 250 families have been relocated to one of the other public housing developments in New Orleans, five of which ranked *below* the former St. Thomas in overall neighborhood condition (New Orleans Planning Commission 2002). About 300 families are living in Section 8 housing, having been moved to the front of the Section 8 waiting list, bumping other residents who had waited there for years, as part of the strategy to quell resident dissent against the abandonment of the original redevelopment plans. The location of the other 250 or so families remains unknown.

The St. Thomas redevelopment also will have consequences for New Orleans public housing generally, which are likely to be the opposite of those called for by the social agenda of HOPE VI. As HRI's resident-selection guidelines make clear, the public housing families who do end up living in St. Thomas will be the most stable in the city — those with the highest incomes, no instances of late rental payments, no criminal history and the best employment and credit records. With the

most stable tenants creamed off the top to live among the wealthy at the New St. Thomas, conditions in the other housing projects in New Orleans can be expected to deteriorate. Admittedly, this "creaming" effect and its correlated residualization will not be terribly significant in the case of St. Thomas, because the number of public housing units in the new development is so small. But to the extent that the St. Thomas HOPE VI has any effect at all on the concentration of poverty in New Orleans' urban ghettoes, it will be to increase, rather than decrease it.

HANO, meanwhile, has four other HOPE VI redevelopments in the pipeline, at the Desire, T. J. Peete, Guste and Fischer Housing Developments. If these follow in the footsteps of St. Thomas—and early indications are that they will, with resident lawsuits against HANO in the two projects that have passed the planning stage—the creaming effect may become considerably more significant. HANO is using HOPE VI funds to decrease its overall housing stock, meaning it will get less funding from HUD, since housing authority budgets are determined on a per-unit basis.[21] Simultaneously, HANO is shifting its wealthiest and most stable tenants to mixed-income communities, which increases the proportion of extremely poor, unemployed and unstable residents in the non-HOPE VI developments, the stock HANO continues to manage and maintain. The result will be a situation as devastating as it is familiar: the combination in public housing of decreased public investment and increased concentration of poverty. If future HOPE VI projects go the way of St. Thomas, New Orleans may well end up with urban ghettoes that make the current ones look healthy.

Despite all this, there have been no regrets in government circles over the implementation of the St. Thomas HOPE VI. This is presumably because, as the *Times-Picayune* prophesied years before the charade began, the area "is attracting people back to the city and providing a new tax base for New Orleans" (Kelso 1993). During the 12 months after St. Thomas was demolished, property values in the area increased by over 80% (Lambert 2002:6). Chalk up a victory for urban mercantilism.

[21] HUD has warned of this in its most recent audit of HANO (HUD 2001b).

4 CONCLUSIONS

Summary of Arguments

To summarize the findings of this study, we have argued against the tendency of HUD, city officials and most policy analysts to treat the goals of revitalizing inner-city markets and improving the living conditions of public housing residents as if they were part of a single, harmonious process. We have tried to show that the objectives of market revitalization—to increase property values and attract businesses and high-income residents—not only fail, in themselves, to improve the life chances of poor people, but generate strong pressures to displace public housing and its residents to the least attractive areas of cities. We used the case of the St. Thomas HOPE VI to illustrate this divergence between the market and social agendas of revitalization. From the perspective of the market agenda, the St. Thomas redevelopment has been a success: area property values are up over 80% already, before the new development even has been built, and in all probability the "New St. Thomas" will indeed attract wealthy residents and businesses back into the city. From the perspective of the social agenda, however, the St. Thomas HOPE VI has been an unmitigated failure: after all the participatory planning sessions, the resident consultations, the negotiations and the protests, very few former residents will return to the "New St. Thomas".

This divergence between the social and market agendas of revitalization creates a strong case for governmental intervention, to protect the interests of poor people from the residualising consequences of market renewal. We have argued, however, that city governments tend toward "urban mercantilism"—favoring those activities that contribute most to increasing property values and augmenting the local tax base—and thus are more likely to intervene in precisely the opposite way, to subsidize gentrification and encourage the displacement of poor people. The massive public subsidy and the unswerving political support for the St. Thomas redevelopment, even after it had abandoned its social aims completely, provides evidence of this trend. We have argued that the design of the HOPE VI program exacerbates the problem by granting extensive autonomy to city-level decision-making, which permits local governments to appropriate HOPE VI funds for urban mercantilist purposes.

We have suggested, finally, that one of the likely consequences of HOPE VI in New Orleans will be to cream off the most wealthy and stable public housing residents to live in mixed-income communities, which will increase the concentration of poverty, unemployment and crime in the city's other public housing developments — precisely the opposite of the articulated goal for the HOPE VI program.

The Feds: the solution or the problem?

An analysis of this kind, which has focused on the disastrous practical effects of urban mercantilism on implementing a program designed to help the poor, would normally conclude by calling for more active federal intervention. Because national governments are free from the immediate pressure to maximize the fiscal base of a small geographic area and because they have access to credit that far outstrips cities' narrow dependence on a credit rating for financing, the fiscal well-being of nations is

not intimately linked with their ability to attract capital and increase land values in a small jurisdiction (Peterson 1981:218). National governments, as a consequence, have in principle a great deal more autonomy than do local governments to pursue redistributive policies. It is normal, therefore, for socially oriented analyses of urban mercantilism to call for more active federal regulation at the local level, to prevent social agendas from being overrun by urban "growth machines" (Peterson 1981; Logan and Molotch 1989).

In our case, however, it simply will not do to call upon the federal government to play a more active role in the implementation of HOPE VI. For HUD's role in the St. Thomas HOPE VI quite simply could not have been more active. During the lifespan of the St. Thomas HOPE VI, HUD essentially was running HANO. In 1994, to escape a complete federal takeover, HANO entered into a special "Cooperative Endeavor Agreement" (CEA) with HUD, under which a HUD official, the Assistant Secretary of Public and Indian Housing, assumed the full responsibilities of HANO's now-dismantled Board. HUD also appointed an "Executive Monitor" to oversee every decision HANO made and ensure that it was acceptable to HUD. This arrangement ended only in early 2002 with an outright federal takeover of HANO. As a former member of STICC put it, "If HANO made a move, HUD was a part of it." No model of federal regulation could be more active or interventionist than this. Nevertheless, HUD oversaw without objection the complete perversion of the original HOPE VI proposal, overriding a HANO decision only on one occasion, in that case *against* the residents and their choice of a developer.

There are several possible explanations for HUD's failure to protect the interests of St. Thomas residents. It could be argued, implausibly, that HUD failed in its role as overseer purely out of negligence and a naiveté of the true implications of the development plans. However, considering its official presence in overseeing HANO's every move, HUD hardly could have failed to notice that HRI's "Revitalization Plan" and "Mixed Finance Development Proposal" called for far fewer public housing units, especially when the residents were shouting as much from the streets. It could be argued that HUD chose deliberately not to intervene in the process, out of respect for the HOPE VI guidelines, which call for respecting "local decisions to the fullest extent possible under existing laws" (HUD 1997:2). This, too, is inadequate, for it merely redirects the question back a level, to the original decision to grant localities this autonomy — assuming it was entirely obvious that such autonomy, with the gentrifying pressures surrounding HOPE VI, would in many cases be abused. The most likely explanation, therefore, is that, despite its stated intentions to "improve the living environment of public housing residents", HOPE VI has been designed and implemented intentionally to grant cities the freedom to pursue a purely gentrifying agenda, if they so choose. If this is the case, it would appear that the dynamics of urban mercantilism have extended beyond New Orleans' "city limits" (Peterson 1981), affecting the decisions of the federal government as well.

Some support for this view comes from an encounter I had with Bruce Katz, Chief of Staff of HUD under Henry Cisneros during the early stages of the St. Thomas HOPE VI. I briefly described to Katz the betrayal of the St. Thomas residents and the abandonment of the social agenda in the St. Thomas project, and

asked how HUD could ensure, in the future, that the interests of public housing residents were not undermined by gentrifying pressures and urban mercantilism.[22] Katz's response was revealing:

> Cities *have* to gentrify, especially bottom of the barrel cities like New Orleans. If they don't gentrify, they're going to die. Because nobody is going to bail them out this time. The federal government is not going to bail them out this time.

Assuming Katz's remarks are representative of HUD's intentions for HOPE VI—and HUD's record in the St. Thomas project gives good reason to believe they are—HUD appears to have designed the HOPE VI program deliberately to allow its market agenda to predominate, in order to move cities toward fiscal self-sufficiency and decrease their dependence upon the federal government for funding. From that perspective, the St. Thomas HOPE VI would not be considered a failure at all, despite the fact that the residents who were supposed to benefit have been lied to, abused and ultimately scattered throughout the city and displaced to ghettoes with conditions even worse than those at the old St. Thomas. If this assessment is correct, it would be advisable, in the name of honesty, for HUD to follow the advice of Donna Johnigan, President of the New Orleans Citywide Tenant Association: "They need to change the name of it, because it's not about 'hope'. It's about tearing down a lot of public housing."[23]

Policy Recommendations

More significant changes to HOPE VI are not difficult to enumerate. HUD should establish legal minimums to the percentage of public housing built on site in mixed-income communities, linked to the amount of HOPE VI funding granted; for-profit ownership of mixed-income developments should be forbidden, to prevent the inherent conflict of interest between the profit-motive and the interests of public housing residents; clear rules should be established for the income levels to which HOPE VI public housing units will rent; resident participation in decision-making should be encouraged not only in principle, but in practice; a monitoring body should be established to ensure that redevelopment plans accepted by residents and approved by HUD actually are implemented; finally, promises to residents should be given the status of legally binding contracts, so that residents have the option of legal recourse. These amendments to HOPE VI would be extremely easy to implement, would require minimal additional staff and funding and would go a long way toward preventing St. Thomas-style betrayals. They would require, however, that HUD have some basic concern for public housing residents for their own sake, apart from being "concerned" that they are in the way of the plans of urban revitalization. The St. Thomas HOPE VI provides scant evidence for such concern.

Further Research

I have suggested that this study has relevance beyond the case of St. Thomas. The resident council of Desire, another New Orleans housing development, recently

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[22] The question was asked at a public lecture by Katz at the London School of Economics on 7 February 2002

[23] Interview with Donna Johnigan, 7 May 2002

sued HANO over its implementation of a HOPE VI grant, alleging that HANO "reduced the number of low-income units planned" and set up "arbitrary, unreasonable standards" for residents who wished to return, "in an effort to create an affluent neighborhood to attract middle-class African-Americans and Whites."[24] Residents of yet another New Orleans project, Guste Housing Development, also sued HANO to oppose its application for a HOPE VI grant, on similar grounds. Lawsuits and petitions have been filed by residents against HOPE VI projects in several other U.S. cities, including St. Louis, Cincinnati, San Francisco, Washington D.C., Charlotte, North Carolina and Boston.[25] This suggests that the St. Thomas betrayal is not an isolated case and may indeed be part of a more general trend.

It has not been possible, however, to pursue the wider implications of the St. Thomas case in our research. Our analysis of urban mercantilism would suggest that the chances are greatest for the perversion of HOPE VI toward a market agenda in poorer cities, where the structural pressures to attract high tax-yield residents and increase land values are more intense.[26] Katz's comment about the need for "bottom of the barrel cities" to gentrify suggests that HUD also is most enthusiastic about disregarding the interests of public housing residents in poor cities, where fiscal dependence on the federal government is greater. Tragically, it is in precisely these cities that the need for real and significant investment in public housing is most desperate.

More research clearly is required to establish the extent to which HUD and local housing authorities are repeating the St. Thomas pattern in other HOPE VI projects and to contrast those cases with successful HOPE VI projects. It needs to be determined whether HOPE VI funding tends to go to housing projects in more marketable areas of cities, where land is growing more valuable, as A. Reichl has suggested and our views on urban mercantilism would predict. Also, special attention should be paid to the residualizing effect HOPE VI redevelopments may have on other housing projects in the same city. Even in "successful" HOPE VI projects—those that do result in the creation of significant amounts of on-site public housing—"tenant screening" has been seen as a "vital factor of success" (Brophy and Smith 1997). If, with Brophy and Smith, one measures "success" narrowly in terms of the redeveloped community alone, the justification for "tenant screening" is self-evident. However, because those residents screened out do not simply disappear, a wider conception of "success" clearly is required — one that considers the effect of HOPE VI redevelopments on a city's public housing stock and tenant community as a whole. It must be determined whether HOPE VI is functioning to cream off the most stable public housing residents to live in mixed-income communities, leaving the rest behind in housing projects not lucky enough to be situated on land that urban mercantilists want to revitalize. If this is the case the legacy of HOPE VI may be to have created urban ghettoes with concentrations of poverty and crime even higher than those at present.

It may be recommended, as a final note of caution, that investigators base analyses, not on what housing authorities, HUD and developers say is being built,

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[24] Cited in DeVault 2001
[25] See Pitcoff 1999; DeVault 2001; and Fletcher 2001
[26] See Peterson 1981, Chapter 3

but on what actually gets built. For the evidence from St. Thomas suggests that the rift between the market and social agendas of revitalization can be hidden from public view by an ample use of smoke and mirrors.

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Appendix A: Suburbanisation Statistics for New Orleans

Source: United States Census

Total Population Change, 1970-2000

	New Orleans, LA MSA	Central city of: New Orleans, LA	Suburbs
1970	1,144,130	593,471	534,367
1980	1,303,800	557,515	719,567
1990	1,285,270	496,938	764,208
2000	1,337,726	484,674	827,357

Change in Total Population (Percent), 1970-2000

	New Orleans, LA MSA	Central city of: New Orleans, LA	Suburbs
1970 to 1980	14.0	-6.1	34.7
1980 to 1990	-1.4	-10.9	6.2
1990 to 2000	4.1	-2.5	8.3
1970 to 2000	16.9	-18.3	54.8

Median Family Income in 1998 Dollars, 1969-1989

	New Orleans, LA MSA	Central city of: New Orleans,LA	Suburbs
1969	$38,440	$33,066	$43,042
1979	$43,604	$33,684	$48,556
1989	$38,400	$29,159	$42,310

Employed Residents

	New Orleans, LA MSA	Central city of: New Orleans, LA	Suburbs
1970	399,138	210,351	183,521
1980	544,460	221,146	311,987
1990	541,099	190,477	339,711
% Change 1970 to 1990	35.6	-9.4	85.1

Unemployment Rate (Percent)

	New Orleans, LA MSA	Central city of: New Orleans, LA	Suburbs*
1970	5.0	5.7	4.1
1980	5.7	7.0	4.7
1990	9.1	12.4	7.3

Appendix B: Demand and Waiting Lists for Public Housing in New Orleans

Source: HUD 2001a (Annual Plan for Fiscal Year 2001: Housing Authority of New Orleans)

HANO Public Housing Waiting list		
Income category, % of MFI	# of families	% of families
under 30%	4,129	85.9
30-50%	602	12.5
50-80%	75	1.6
Total	**4,806**	**100**

Overal demand for public housing units (according to 2000 U.S. Census)	
Income category	# of families
under 30%	36,095
30-50%	15,959
50-80%	17,865
Elderly	17,824
Total	**87,743**

% of P/H demand met by HANO: 18%

HANO Public Housing Stock Breakdown	
Type of housing	# of families
Public housing	7,459
Section 8 Vouchers	4,341
Section 8 Certificates	461
Section 8 Mod Rehab	296
Total	**12,557**

Appendix C: HANO Summary/Publicity

ST. THOMAS

July 2002

Revitalization Plan

The St. Thomas Development was awarded a 1996 HOPE VI grant. Proposed plans call for the complete demolition of the LA1-09 section and demolition of all but five buildings in the LA1-01 section. The exterior of the remaining five buildings in the LA1-01 section will be restored to their original appearance facade, as dictated by the Historic 106-Process. The remainder of the site will be redeveloped with a mixture of single-family and semi-detached homes for rental and homeownership. The project also includes an off-site rental housing program. The HOPE VI Revitalization Plan is to be developed and implemented through development partners, Historic Restoration Incorporated, St. Thomas Resident Council and HANO. As a HOPE VI Revitalization Project, St. Thomas is implementing the Community and Supportive Services Program (CSSP) Plan to address social and community services for public housing residents.

Revitalization Points

- Demolition of all but five buildings to remain in the LA1-01 Section
- 182 Public-Housing-Eligible Rental Units
- 414 Market-Rate Rental Units
- 100 Public-Housing-Eligible Units Off-Site
- HUD 202 67 units Elderly Facility
- 15 Affordable For-Sale Units
- 58 Market-Rate For-Sale Units
- 312-units Continuing Care Facility
- 100-units Residential Condominium Facility
- Commercial Facilities
- 5 buildings historically restored & renovated for commercial use

Income Mix

(excluding Continuum Care, For-sale units and Condominium Facilities)

- Market Rate Units 60%
- Public Housing Eligible Units 40%

Project Cost

Including the retirement community, condominiums, and the retail development, the total cost for the St. Thomas HOPE VI Revitalization is estimated at $320 million. The funding sources are as follows:

HOPE VI Grant	$ 25,000,000
HOPE VI Demolition Grant	3,500,000
Comprehensive Grant Program (CGP) (92-99)	6,200,000
State of Louisiana	8,000,000
City of New Orleans	6,000,000
Tax Exempt Bonds	45,600,000
Other[1]	226,300,000
TOTAL	**$320,600,000**

Project Milestones

- HUD Approved Revised Revitalization Plan — Sept 2000
- CSSP Plan Approved — September 2000
- Relocation of entire site — June 2001
- Entered into Cooperative Endeavor Agreement with City of New Orleans — May 2001
- Entered into Cooperative Endeavor Agreement with State of Louisiana — May 2001
- Commitment of Wal-Mart to serve as retail partner — July 2001
- Submitted Mixed-Finance Proposal to HUD — July 2001
- Homeownership Plan submitted to HUD — August 2001
- Demolition of entire site — October 2001
- Infrastructure construction: 32% complete
- Construction Site 1 Design: completed
- Section 106 of the NHPA memorandum of agreement under revision

[1] Other consists of funds from City of New Orleans, Fannie Mae Foundation, local banks, low income tax credits, Capital Outlay Funds, self generated funds and historic tax credits

Proposed configuration for the new community on the St. Thomas Housing Development.

Ongoing infrastructure work at St. Thomas, February 2002.

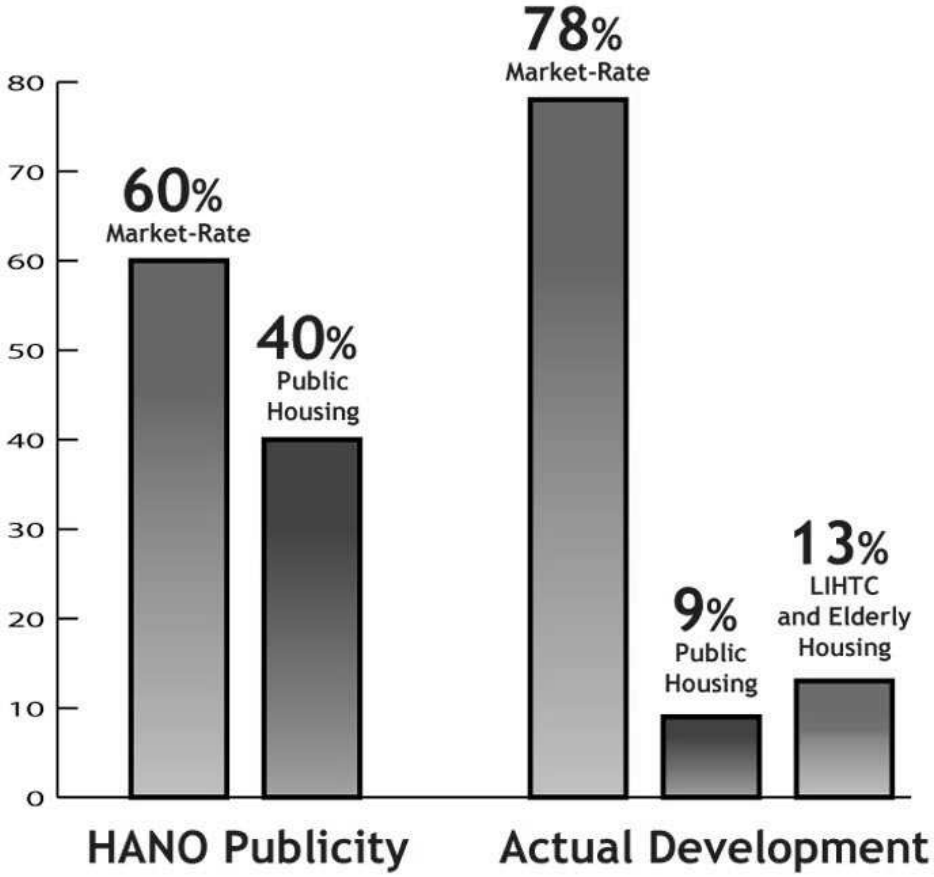
St. Thomas Facts

LA 1-01, Constructed: 1941, 970 units
LA 1-09, Constructed: 1953, 540 units

Units

Remaining Units	28
Demolished Units	1482

All residents have been relocated from the St. Thomas Housing Development.



How did HANO arrive at these numbers?

HANO *does not count* Continuum Care, For-Sale Units and Condominium Facilities, thereby *excluding* a total of **470 on-site** market-rate units from the "income mix."

But, HANO *includes* **100 off-site** units as part of the "income mix" - *for which funding is uncertain.*

Appendix D: 1996 HOPE VI Grant Application vs. Actual Development Plans

Sources:

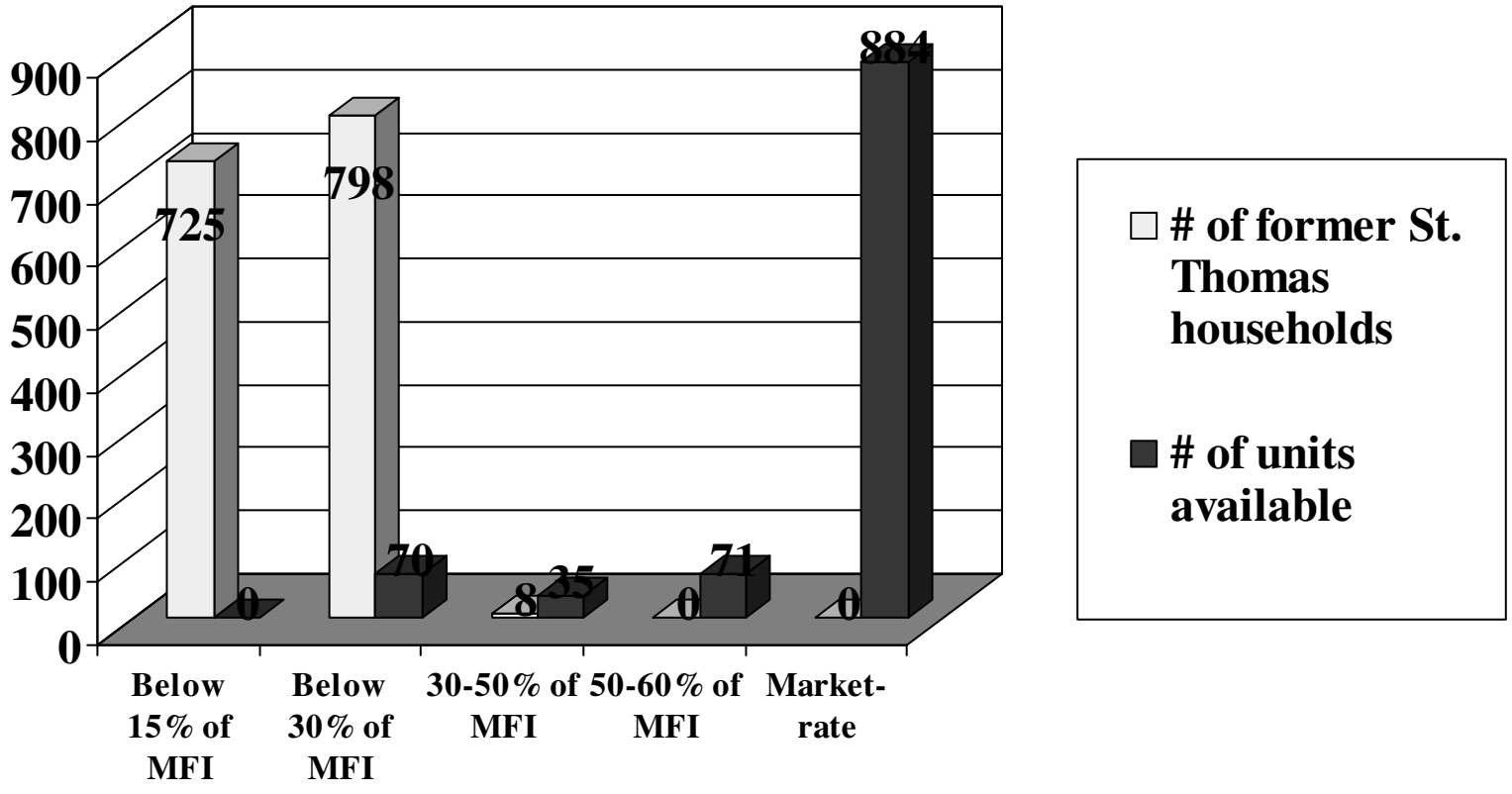
Original HOPE VI Grant Application, comprising HANO 1996a, HANO 1996b, HANO 1994, ULI 1993

Current HRI development plans, as detailed in HRI 2000b and amended in HRI 2001a and HRI 2001b

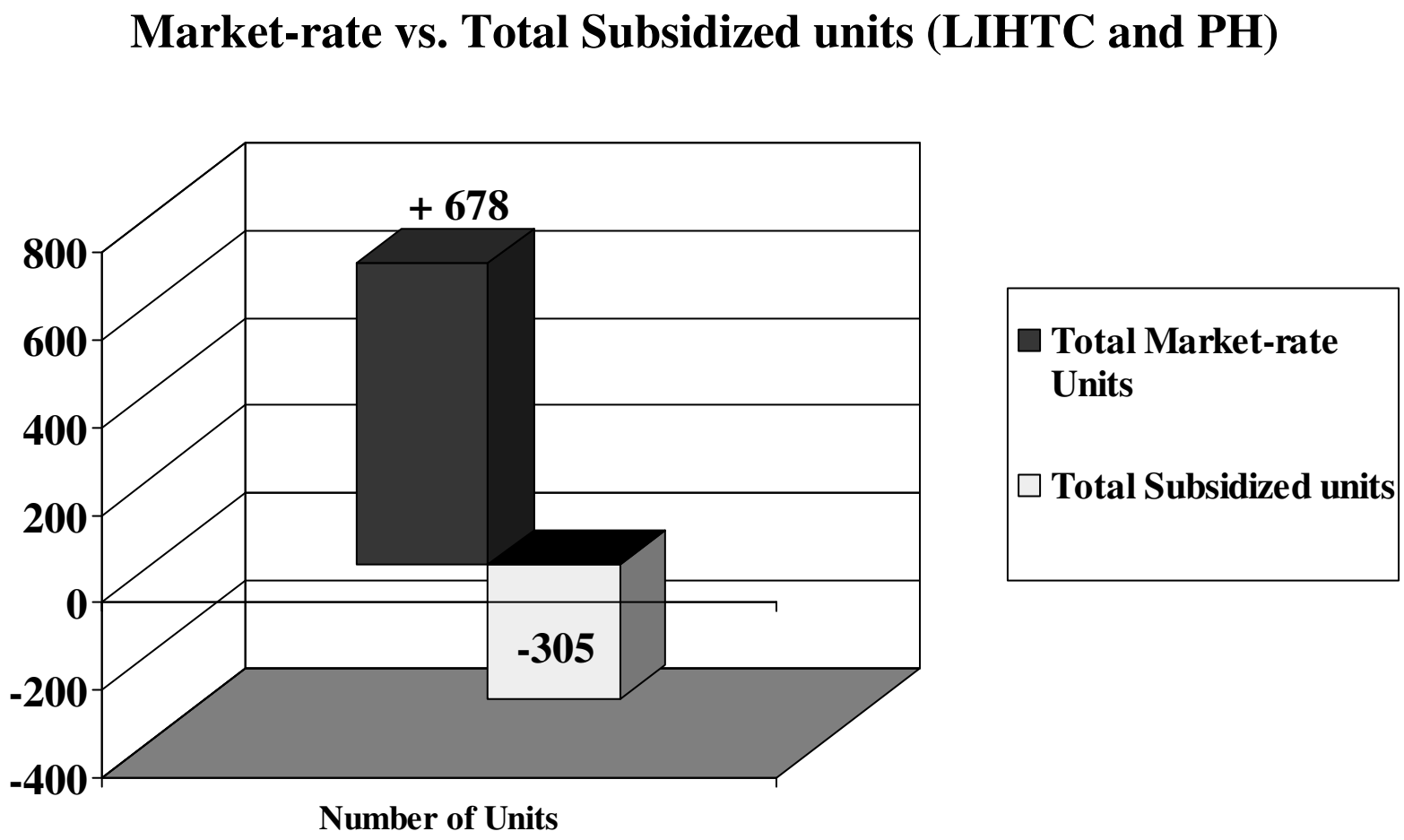
Grant Application vs. HRI Plans	1996 App	HRI Plans	Difference	% Difference
Totals, on site				
Total units	**775**	**1142**	**367**	**47%**
Market units	**212**	**884**	**672**	**317%**
Total Subsidised units (Low-income and Public housing)	**563**	**258**	**-305**	**-54%**
LIHTC Rental and L/I Elderly Units (50-60% MFI)	**176**	**138**	**-38**	**-22%**
Public housing rental units (below 50% MFI)	**292**	**105**	**-187**	**-64%**
Subsidized For-Sale Homes	**95**	**15**	**-80**	**-84%**
% Market units	**27%**	**77%**	**50%**	**—**
% LIHTC units	**23%**	**13%**	**-9%**	**—**
% P/H units	**50%**	**9%**	**-41%**	**—**
On-site breakdown				
Market rental units	117	414	297	254%
Luxury Elderly Units	0	312	312	—
Market homes	95	58	-37	-39%
Luxury Condominiums	0	100	100	—
Homes for first-time buyers	0	15	15	—
LIHTC rental units (50-60% MFI)	176	71	-105	-60%
Section 202 Elderly units (single bedroom)	0	67	67	—
P/H rental units (30-50% MFI)	116	35	-81	-70%
P/H rental units (below 30% MFI)	176	70	-106	-60%
P/H homes	95	0	-95	-100%
Public Housing Bedrooms				
1 Bedroom units	37	82	45	122%
2 Bedroom units	110	70	-40	-36%
3 Bedroom units	110	17	-93	-85%
4 Bedroom units	35	0	-35	-100%
Total # of public housing bedrooms	**727**	**273**	**-454**	**-62%**
Off site				
L/I units off site	0	100	100	—
Total L/I units (including off site)	563	358	-205	-36%
Total units (including off site)	775	1242	467	60%
%Market units	27%	71%	44%	—
% Subsidised units	73%	29%	-44%	—

Appendix D1: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans

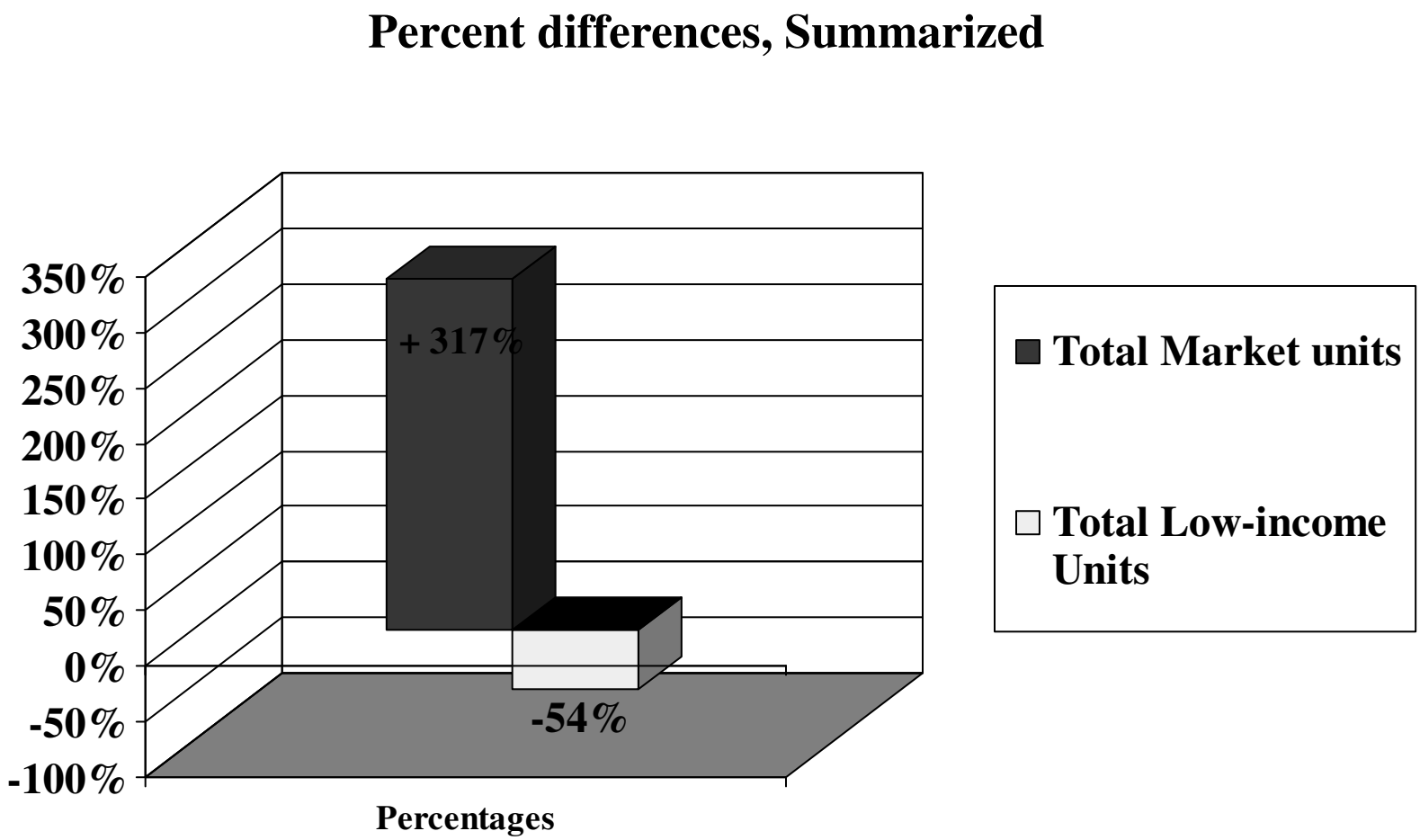
Number of Former St. Thomas Families vs. Number of Units, by Income Category



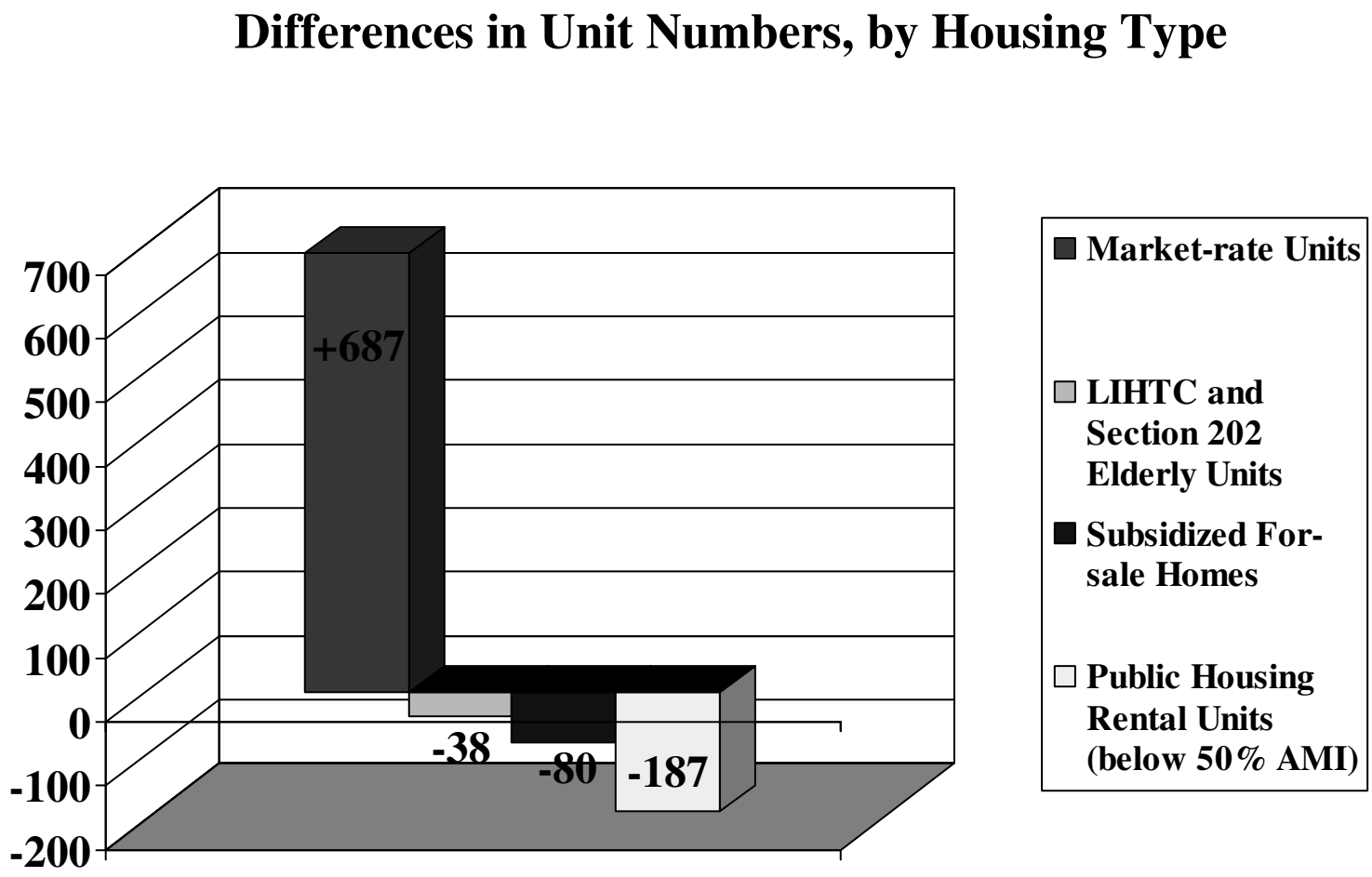
Appendix D2: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans



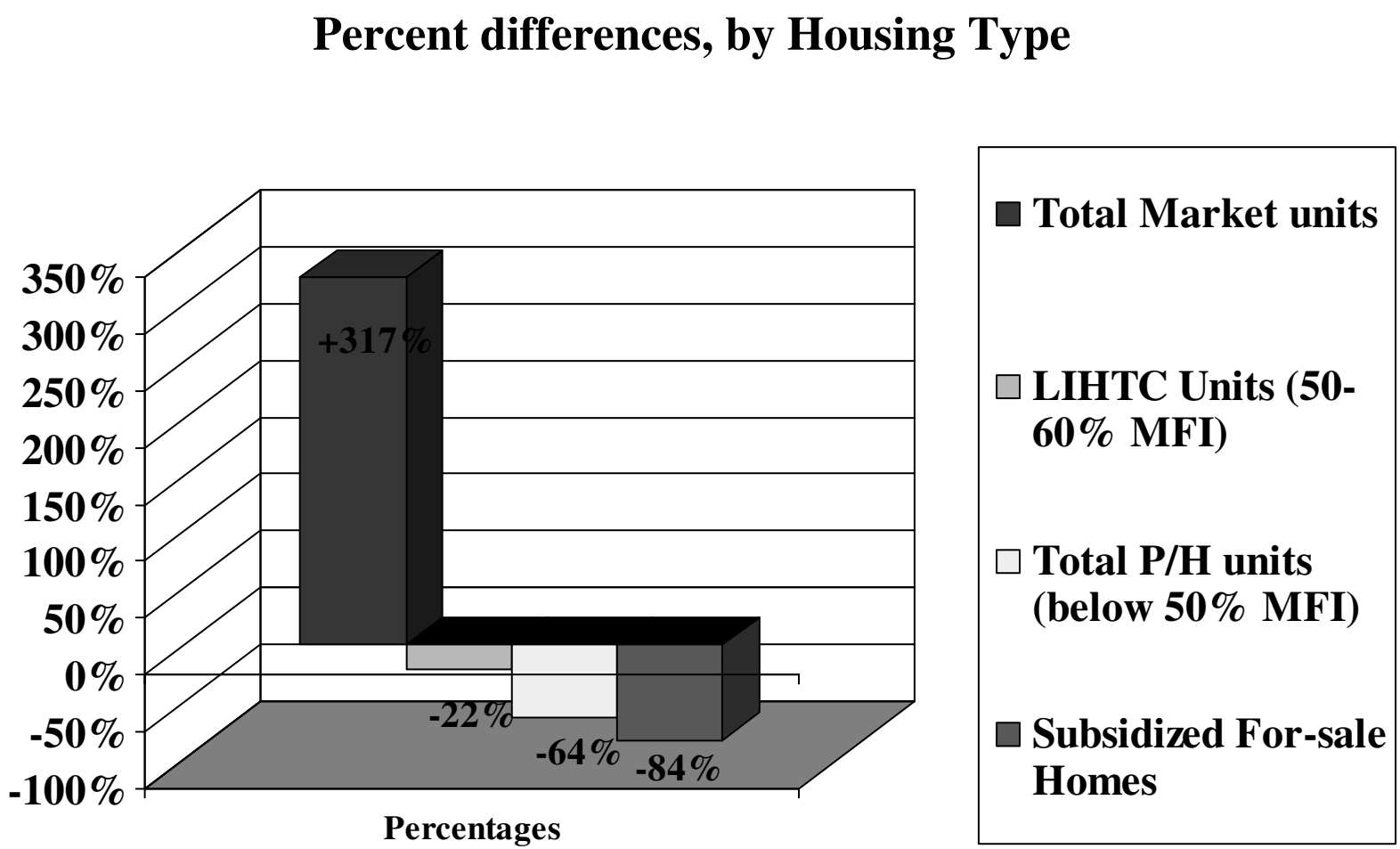
Appendix D3: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans



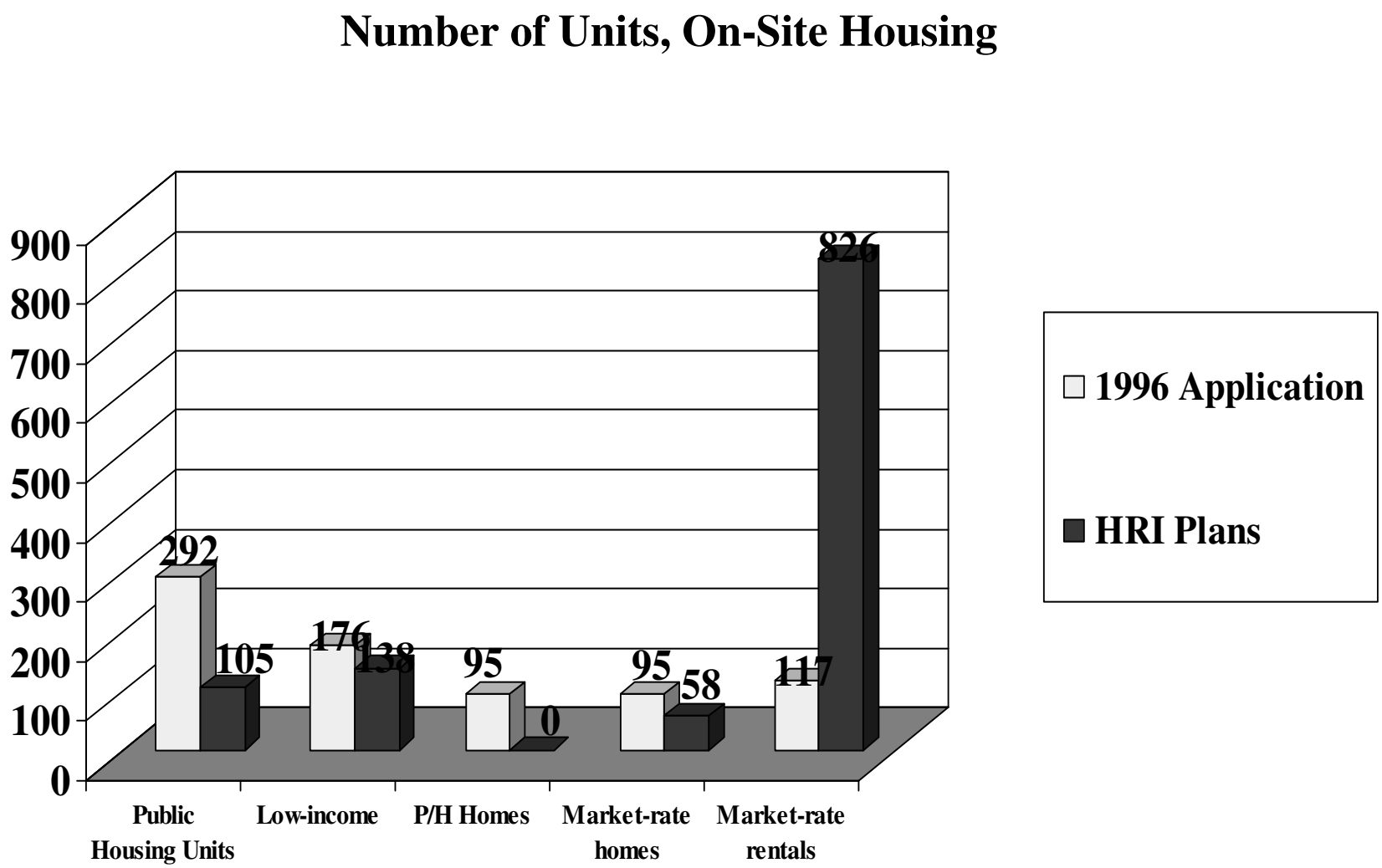
Appendix D4: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans



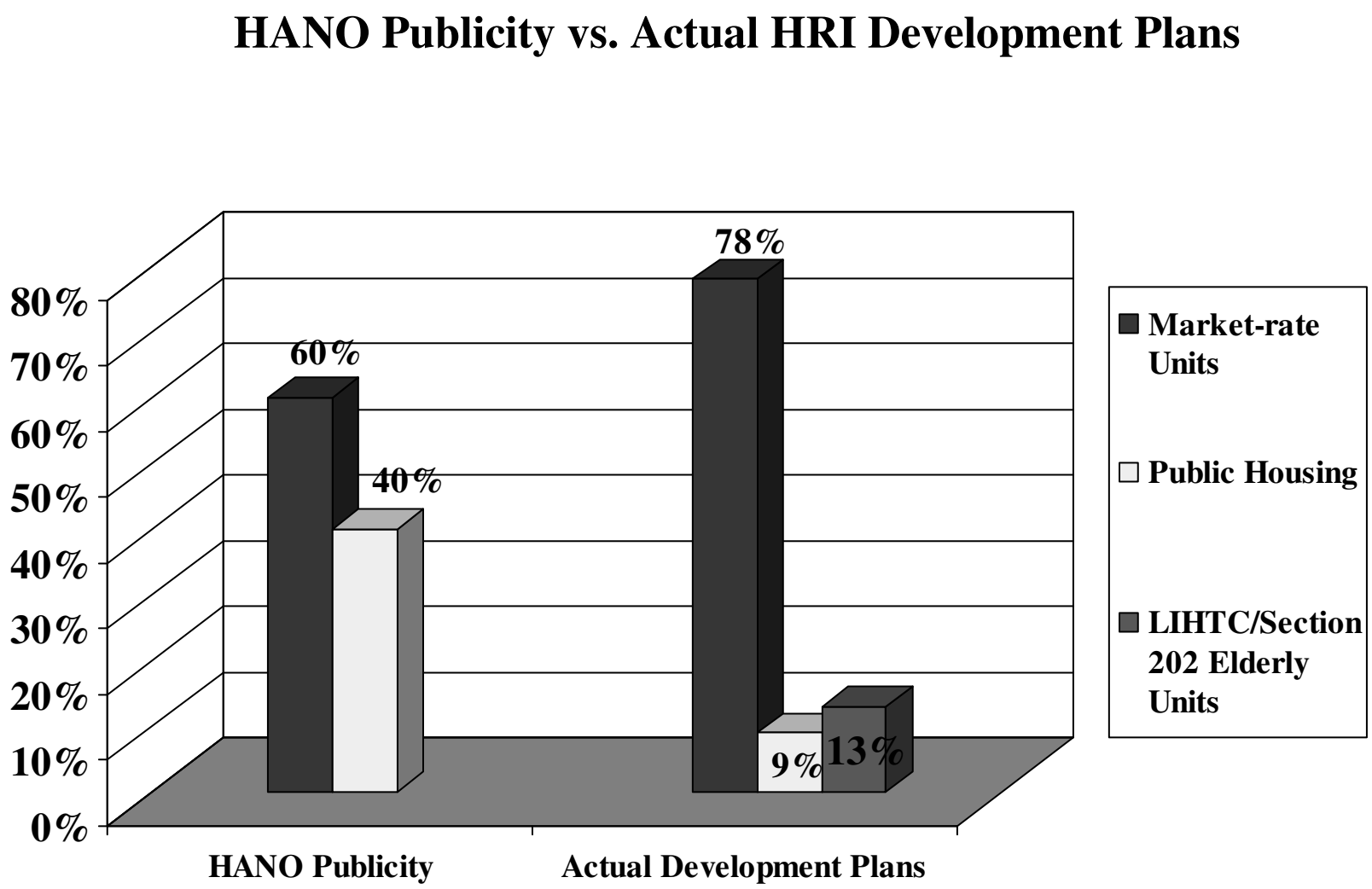
Appendix D5: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans



Appendix D6: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans



Appendix D7: 1996 HOPE VI Grant Application vs. Actual HRI Development Plans



Appendix E1: Total public expenditure and total development costs (TDC) per unit

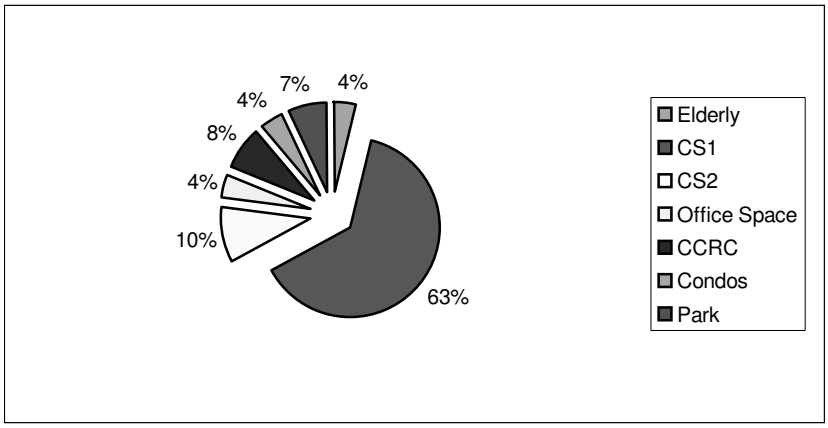
Total Public Expenditure	
HOPE VI grant	$25,000,000
HUD HOPE VI demolition grant	$4,000,000
HUD Section 202 Elderly housing (67 units)	$4,700,000
HANO Comprehensive Grant Program (CGP)	$6,200,000
City of New Orleans, for infrastructure	$6,000,000
State of Louisiana	$8,000,000
City of New Orleans "Home Funds"	$380,000
City, in the form of TIF	$20,000,000
PILOT for CS1 rental, CS2 rental and Commercial	$1,823,640
Land for Residential Component	$6,951,938
HANO/HRI/Wal-Mart land flip (4.5 acres)	$2,189,543
Subsidy from below-market loan (tax-exempt bond issue)	$6,264,000
Low-income Housing Tax Credits	$9,000,000
Total Public Subsidy	$100,509,122
Total subsidized units provided	**258**
Total public subsidy per public/low-income housing unit ("total development cost")	**$389,570**

The land was granted to HRI on a 99 year ground lease for the token fee of $1 for every unit on site ($1142), each year. See attached for estimated valuation.

Appendix E2: Subsidy from below-market loan

Subsidy from below-market loan (Bond Issue)	($)	
Amount of bond issue	29,000,000	
Interest rate on typical market loan	5.41%	(30-year Freddie Mac)
Interest rate on tax-exempt, below-market loan	4.87%	(30-year tax-exempt municipal bond)
Annual interest on market interest loan bonds	1,568,900	
Annual interest on below-market interest loan	1,412,300	
Annual subsidy from below-market interest loan	156,600	
Value of below-market loan subsidy, over life of bond (40 years)	**6,264,000**	

Appendix E3: Estimated Value of Residential Land Subsidy						
	% of total	Total Acres	Acres	Sq. ft/acre	$/sq. ft	Value ($)
Elderly	4%	49	1.96	43,560	$2	$170,755
CS1	63%	49	30.87	43,560	$3	$4,034,092
CS2	10%	49	4.9	43,560	$3	$640,332
Office Space	4%	49	1.96	43,560	$8	$683,021
CCRC	8%	49	3.92	43,560	$5	$853,776
Condos	4%	49	1.96	43,560	$8	$683,021
Park	7%	49	3.43	43,560	$0	$0
Sub-total	**100%**		**49**			**$7,064,996**
Amount paid for land by HRI ($1 per unit per year, for 99 year Ground Lease)						$113,058
Total Amount of Land Subsidy						**6,951,938**



Appendix E4: HANO/HRI/Wal-Mart property flip

Description:

HANO is planning to sell 4.5 acres of commercial land to HRI for $6.33/sq. ft. HRI will re-sell the land to Wal-Mart for $17.50/sq. ft. This amounts to a public subsidy of the redevelopment, in the amount calculated below.

Purchaser and seller	Acres	Sq. ft per acre	Cost / sq. f	Value
HANO land to HRI	4.5	43,560	$6.33	$1,240,807
HRI to Wal-Mart	4.5	43,560	$17.50	$3,430,350
HANO Subsidy				$2,189,543

Appendix F: Average housing-related costs-per-unit, by housing type, CS-1

Sources:
Lambert Advisory LC (2002). St. Thomas HOPE VI & Wal-Mart Evaluation.
Historic Restoration Inc (2001). Mixed Finance Development Proposal
U.S. General Accounting Office (GOA) (2002). Comparing the Characteristics and Costs of Housing Programs.

Units	**(#)**	
Market-rate Units		174
Subsidized Units		122
Total Units		**296**

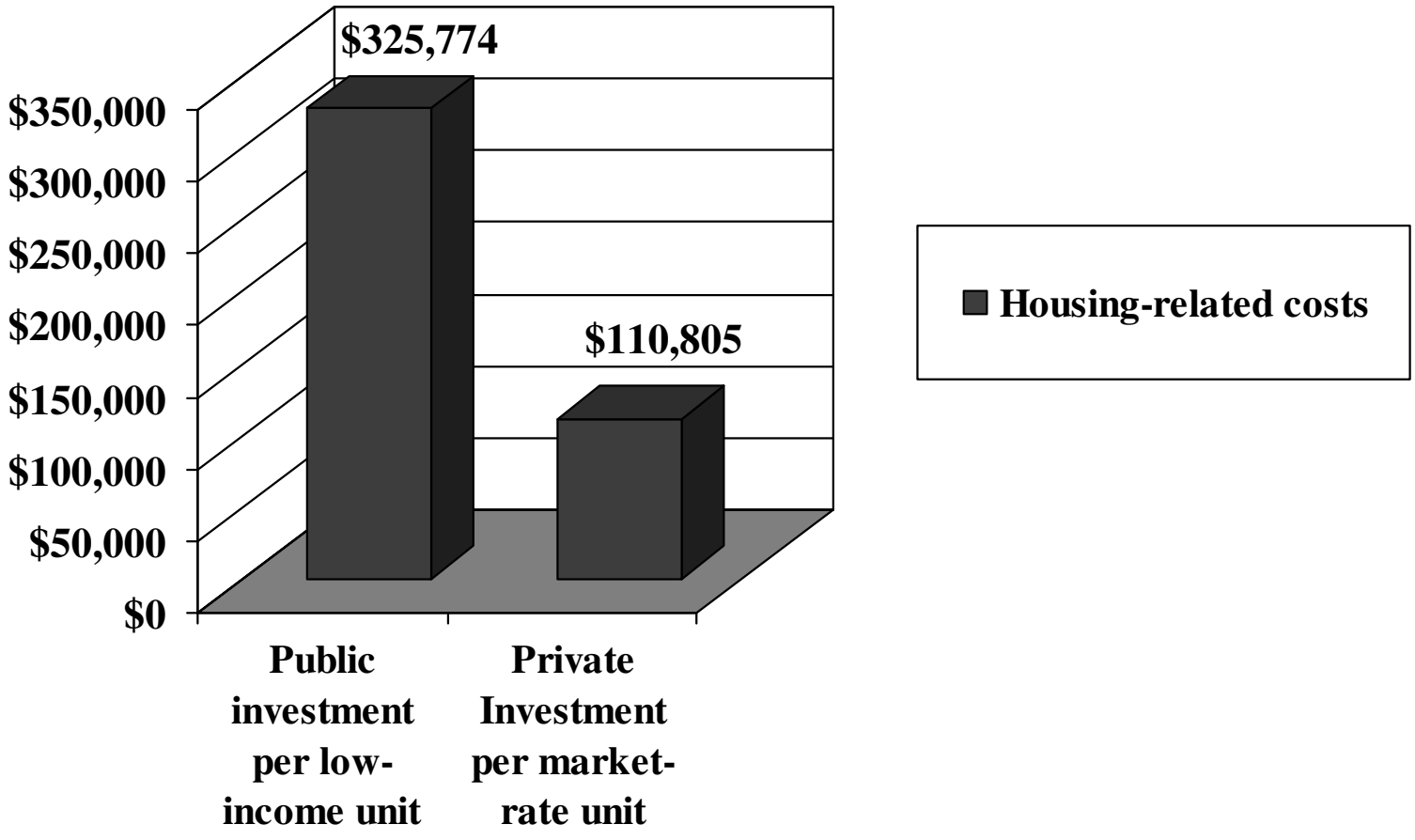
Financing	**($)**	
Subsidized private financing		
Below-market interest rate loan [221(d)4 tax-exempt bond issue]		$12,580,000
Low-income housing tax-credit (LIHTC) equity		$6,700,000
Total subsidized private investment		**$19,280,000**
Non-subsidized private financing		
None	—	
Total non-subsidized private investment		**$0**
Public subsidy		
HOPE VI Grant (structured as a loan)		$12,000,000
Modernization Grant		$1,014,000
HANO development fee		$1,090,000
Subsidy of below-market interest rate loan (see App E2)		$2,717,280
Low-income housing Tax Credits		$6,700,000
Land (30 acres for CS-1, @ $3 per sq. ft) (see App E3)		$4,034,092
Tax increment Financing (TIF)		$12,189,000
Total public investment		**$39,744,372**
(Total public investment, excluding TIF)		$27,555,372
Total Subsidy and Investment		**$59,024,372**

Costs per unit	**Housing-related Costs**
Private investment per market-rate unit	**$110,805**
Public investment per subsidized unit	**$325,774**
(Public investment per subsidized unit, excluding TIF)	$225,864
National HOPE VI Average Housing-related Development Costs	**$117,920**
Over-subsidization per unit in the St. Thomas HOPE VI	**$207,854**

Note on Methodology:
The data for the cost-per-unit assessment for CS-1 is drawn directly from the Lambert Study. Our methodology, however, differs from that employed by the Lambert Study. Our method follows that of the U.S. General Accounting Office in its study of public housing costs, *Comparing the Costs and Characteristics of Housing Programs* (2002). The GAO method differs from that of the Lambert Study in three respects:
a) the Lambert study assesses costs per unit on an aggregate basis, counting both market-rate and public housing units together and considering them relative to overall financing, instead of calculating the cost to the public sector specifically of public housing units; the GAO method, by contrast, calculates public housing cost per unit to the public sector;
b) the GAO method includes the subsidy provided by below-market interest rate loans, while the Lambert Study excludes this subsidy;
c) the GAO method includes the value of tax credits as a subsidy, while the Lambert study excludes this subsidy.
For more information on the GAO method of calculating subsidies, see GAO (2002), pp. 48-50.

Note: All cost-per-unit calculations are based on housing-related costs only, which excludes costs associated with infrastructure, relocation, demolition and resident services. In the St. Thomas HOPE VI, all these additional costs are 100% publicly funded. As a consequence, calculating the total development costs (TDC), which includes these expenditures, would increase the public investment per public housing unit substantially, without affecting the average costs to private investment per market-rate unit.

Appendix F2: Costs per unit, public and private sector, Phase I
Source:*Lambert Advisory LC (2002). St. Thomas HOPE VI & Wal-Mart Evaluation.*



Appendix G: Net Annual Income for Phase I, to LIHTC Equity Investor

Sources:
Lambert Advisory (2002).St. Thomas HOPE VI & Wal-Mart Evaluation
HRI (2001). Mixed Finance Development Proposal

Rent, CS-1

Income range	Annual rent	# of units	Average monthly rent
0-30%	$24,252	47	$43
31-40%	$88,368	28	$263
41-60%	$241,392	47	$428
Market-rate	$2,104,644	174	$1,008

Operating Costs, CS-1

Public Housing rent and subsidy	$436,207
Market rate	$2,104,644
Vacancy (@ 5%)	127,043
Estimaged Gross Income	2,413,808
Management Fee	113,664
Operating Expenses	1,090,464
Reserve	$148,000
HANO Lease	$296
Total Expenses	$1,352,424
Private tax credit equity investment	6,700,000
Real value of tax credits	6,700,000
Net equity outlay, over 10 years	**0**
Gross Income to LIHTC equity investor	2,413,808
Operating Costs	1,352,424
Net Annual Income (and profit) to LIHTC equity investor	**$1,061,384**