

Reflections on the Crisis: The Need for Public Sector Entrepreneurialism

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In 2012, I left my post as the U.S. Department of Housing and Urban Development's (HUD) Assistant Secretary of Community Planning and Development to return to Los Angeles and resume my role as the head of its Housing Department (LAHD). By virtue of these dual roles, I had the unique opportunity to see the foreclosure crisis and the response from both the local and federal policy perspective, and to reflect on what we've learned about community development as a result. Through my experiences, I have come to believe that it takes a real commitment to the spirit of introspection and innovation to confront challenges, particularly in the realm of neighborhood stabilization and development. Like entrepreneurs who find and assess opportunities, identify and manage risk, track and value process(es), locate and manage resources, and anticipate and measure benefits and outcomes, my team and I have consistently sought the spaces across and between sectors that represent fertile ground for innovation and success.

I share some of these successes here to show how the practice of stabilizing and developing thriving neighborhoods is evolving for the better. The Los Angeles experience with the Neighborhood Stabilization Program (NSP) and Consolidated Plan (ConPlan), for example, provides valuable insights into how a spirit of entrepreneurship and a commitment to place-making can contribute to community revitalization. I also describe how a culture of technical assistance and data-driven planning is emerging at the federal level, bringing with it the promise of better targeting of public funds and greater transparency. This is not to suggest that any of these efforts are without their challenges (indeed, often large and frustrating ones!). However, I also believe that the last five years have fostered incredible innovation within the community development field, and that these innovations should be shared and celebrated.

Reflections on Los Angeles and NSP

As I look in the rearview mirror, I am still staggered by how badly Los Angeles was hit by the foreclosure crisis. Between September 2006 and October 2009, the Los Angeles area saw more than 206,000 homes go through foreclosure, 32,000 in the city of Los Angeles alone. The Northeast San Fernando Valley and South Los Angeles areas were the hardest hit, but in very different ways. In the Valley, the impact was felt primarily in single-family homes. In contrast, in South Los Angeles foreclosures struck many more multifamily housing properties. The foreclosure crisis contributed significantly to declines in the city's economy as well. Los Angeles relied heavily on the real-estate industry as a driver of its local economy, and the

collapse of the housing market decimated the employment base. Residential unit development activity fell off a cliff, and with it, all the jobs that supported that development activity.

By necessity, the ethos of “doing more with less” took hold within LAHD and fundamentally shaped how we approached our NSP program. We leveraged existing legislative and government infrastructure, data resources and tools (e.g., mapping), and cross-departmental and cross-jurisdictional relationships forged before NSP to expand the breadth of the NSP dollar. Plainly speaking, the City stretched and strategically used every dollar, bolstering as many policy priorities as possible.

Some examples:

Job Creation - Bridges to Business. The Bridges to Business Success (B2BS) is a collaboration of Citi Community Development, the City of Los Angeles' Housing and Community Investment Department, the University of Southern California Minority Business Development Agency, and the Southern California Minority Business Development Council. B2BS provides minority small business owners with professional training to build capacity to effectively compete for public and private contracting opportunities. Graduates of the program successfully completed nearly \$4 million of contracted NSP work in Los Angeles; NSP was responsible for creating or retaining more than 4,700 full- and part-time jobs. Jobs ranged from accounting and other administrative positions to construction and real estate professionals, the fields most acutely affected by the economic downturn. Linking NSP to employment goals also provides training opportunities for career advancement. Contractors learned energy efficient construction techniques in order to work in an emerging, “green” economy.

Transit-Oriented Development. One of the key concerns for me and my staff has been how to promote equitable transit-oriented development and ensure that we preserve affordability near public transit routes. We decided to use NSP to help achieve this goal, and directed NSP funding toward projects located on or near transit stops. One example of this is the Metro@ Chinatown Senior Lofts. This property is a transit-oriented development that encompasses the adaptive reuse of two delinquent, vacant, blighted office buildings into 123 affordable rental live/work units. Located about a block away from the Chinatown stop of the Gold Line, this Enterprise Green Communities-certified project has significantly enhanced the image, livability, and economic vitality of the Chinatown community.

Addressing Chronic Homelessness. The City, working in partnership with the Los Angeles County Department of Health Services (DHS), has set aside 15 NSP properties, totaling 56 housing units, to provide permanent supportive housing opportunities for homeless individuals with disabilities or chronic health conditions who are frequent users of DHS hospital services.

Creating Green Spaces - Parks Initiative. NSP enabled the City to convert blighted and vacant properties into community parks. Working in NSP neighborhoods and leveraging both NSP1 and other public and private funds, the City converted nine blighted and vacant

foreclosed properties (acquired with NSP1 funding) into new community parks. The parks are designed with sustainable landscapes and water and energy-conserving elements, such as smart irrigation systems and solar-powered lighting.

Preservation of Valuable Housing - RSO Acquisition Strategy. The data and mapping performed by the City revealed that foreclosures in South Los Angeles consisted of a mix of single-family homes and smaller rental properties that were subject to the City's Rent Stabilization Ordinance (RSO). The RSO protects tenants from excessive rent increases in multifamily properties built and occupied prior to October 1, 1978. In many submarkets in the city, rents charged for rent-stabilized units are the more affordable options for tenants. NSP provided the resources to acquire RSO buildings in foreclosure and that were in significant disrepair. Funds were used to invest in substantial rehabilitation. Thereafter, rehabbed properties were transferred to mission-driven organizations with the capacity to own and manage them as affordable rental housing for very low-income households. To date, NSP funds have been used to acquire 46 RSO properties containing more than 150 housing units.

Affordable Housing Trust Fund. The Affordable Housing Trust Fund (AHTF), established in 2000, creates affordable rental housing for low- and very low-income households in Los Angeles. The AHTF emphasizes projects that keep per-unit costs as low as possible, as well as projects that have a demonstrated high level of leverage. However, the foreclosure crisis required that we think innovatively about how to leverage NSP dollars to fund large, catalytic projects that would otherwise have difficulty scoring competitively in the AHTF NOFA process. We decided to target NSP investment to developments that would offer rental opportunities at deeply affordable levels. To date, nearly one-half (47 percent) of combined NSP1 and NSP2 expenditures in Los Angeles have been on projects to assist households with very low incomes, greatly exceeding the minimum requirement of 25 percent. The values of nimbleness and flexibility proved instrumental here. Los Angeles did not originally contemplate using NSP2 funds to acquire and rehabilitate large, multifamily developments, but we nevertheless saw this as an opportunity to meet various goals, such as reviving catalytic projects in areas of need and creating and preserving deeply affordable, multifamily rental units.

The implementation of NSP in Los Angeles was neither easy nor perfect, but we did embrace the spirit of entrepreneurialism as much as possible. We researched, mapped, reviewed, reconsidered, changed direction, adapted, argued, and collaborated, with measurable benefits to the low-income communities we care about.

Los Angeles Beyond NSP

Now, after my stint at HUD (more on that below), I find myself back in Los Angeles, confronting both new and old challenges. While the LA housing market is recovering, many neighborhoods still struggle with foreclosed properties, and affordability remains a perennial concern. With no federal financial commitments (like NSP) in the foreseeable future, Los Angeles has had to consider how it will continue the work begun with NSP.

Encouragingly, the values and systems we put into place with NSP are proving to be very helpful as we move forward, as evidenced by the work on the City's consolidated plan (ConPlan). First, NSP required that we develop significant data analysis and mapping expertise to identify our target neighborhoods. This expertise has been critical to our ability to develop a strategic ConPlan that dovetails transit investment with other community development goals. Showing the power of data in place-based planning and investment, through maps, unleashed opportunities for transformative neighborhood stabilization and development not seen before in Los Angeles.

Second, the idea that singular funding streams should serve multiple goals has really taken root, and we have made the goal of truly comprehensive community development a linchpin of our ConPlan. Given that transit infrastructure funding will entail \$40 billion of investment in the region, it made sense to direct those investments in a way that also connects residents to human services, affordable housing, jobs, neighborhood amenities, as well as the rest of the city. We are really proud of the work we've done on the ConPlan, and feel honored that Federal Reserve Chairman Ben Bernanke singled out the Los Angeles approach as a model plan that "calls for a multifaceted approach" to "build healthy communities by integrating community, economic, and housing development investments with transit opportunities to increase their positive impact on neighborhoods."¹

Third, our work on NSP highlighted the need to build the city's own institutional capacity—to think strategically about the structure of our departments, to create new organizations, and to work collaboratively to effectively coordinate efforts and maximize impact. We've taken the bold, yet necessary, step of consolidating the former Community Development Department's human service functions with the portfolio of programs and services provided by the former Housing Department. Tellingly, the new Housing and Community Investment Department (HCIDLA), which I now lead, is actively implementing the strategic plan articulated in the transit-oriented ConPlan. We also remain committed to undertaking place-based planning in partnership with the private sector, nonprofits, and other government agencies. For example, both LISC and Enterprise have committed to Los Angeles by providing technical assistance to inform the process for targeting the investment of scarce federal housing and human services dollars. In addition, Enterprise will undertake outreach campaigns such as a transit-oriented development university, where community stakeholders will be given the tools to participate in the planning and decision-making process to ensure equitable transit-oriented development.

The Importance of the Federal Role

In addition to my experiences in Los Angeles, my vantage point from my HUD tenure taught me another important lesson: there is a powerful role for the federal government in

¹ Ben Bernanke, "Creating Resilient Communities." Federal Reserve System Community Affairs Research Conference. Washington, D.C. April 12, 2013. <http://www.federalreserve.gov/newsevents/speech/bernanke20130412a.pdf>

helping municipalities respond to the foreclosure crisis and neighborhood redevelopment going forward. While nearly every corner of the country was negatively affected by foreclosures, the exact nature and effects of the crisis were very local. The investment plan set in motion in Los Angeles, through NSP, did not necessarily guarantee success in a rust belt city, a rural county in the southwest, a New England township, or a village in the Pacific Northwest.

For me and my team at HUD, the key question guiding our work was always “what is it that only the federal government can do?” Certainly, federal funding and a public commitment to place-based investments are critical, and I am proud to have been part of the Obama administration where place-based planning was not only encouraged, but backed by clear funding preferences. But I also realized that a key role that HUD can play is one of technical assistance and building the capacity of local municipalities to develop their own innovations.

Let me provide just one example. In Los Angeles, I learned first-hand about the power of data to map needs, shape investments, and build political consensus. But while I was at HUD, it became evident that many localities lacked or had very limited access and ability to use geospatial, analytical tools to assess the breadth and depth of their foreclosure crisis. In fact, we found that only 30 percent of grantees had any mapping capacity.

In response, HUD launched the eCon Planning Suite, a set of data and technology tools to help communities make sure scarce federal dollars were targeted to where they were needed most and could achieve the biggest impact. In addition to improving the effectiveness of public funds, this approach to planning can save state and local communities at least 65,000 staff hours each year and thousands of dollars in consultant fees. HUD Secretary Shaun Donovan put it this way, “We know that in a time of huge budget cuts at the state and local level, it’s harder and harder to have the resources to bring that information together. This technology that we’re providing is going to be really revolutionary in helping all of our grantees work smarter.”² It also empowers the public in a way never before offered. Anyone can log on to the mapping tool and see precisely where the need is in their neighborhood, where investments have been made, and they can be more informed when they argue for their vision of where federal tax dollars ought to be targeted. This is democracy in data!

Concluding Thoughts

My experiences as a policymaker and practitioner at the local and national levels have afforded me the unique insight into the absolutely critical nature of espousing a sense of introspection and innovation. At both the local and federal levels, my team and I strove to implement key tenets of entrepreneurialism: we engaged in constant self-assessment and a regular review of real-time data, understanding that the economic and fiscal realities of the

2 U.S. Department of Housing and Urban Development, “HUD Launches Overhaul Of Consolidated Planning Process,” Press Release HUD No.12-077. http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2012/HUDNo.12-077

housing crisis and the government's response were fluid. And I'm proud to say we're already seeing the manifestations of this "public sector entrepreneurial spirit" taking hold today. We are not planning for it, we're doing it!

Most important, what has been impressed upon me is the absolute need to innovate despite adversity, and to maximize limited funding by aligning local and federal resources, combined with private and philanthropic partners, to have a positive impact on communities.

Mercedes Márquez is the founding General Manager of the Los Angeles Housing + Community Investment Department (HCIDLA). She provides leadership and direction to the integration of the City's housing programs, and community and family services into a neighborhood development department committed to working as a public sector entrepreneur. She administers a combined operating and grant budget of \$217 million and manages the City of LA's 5-year approximately \$500 million Consolidated Plan, the nation's first transit-oriented consolidated plan. Ms. Márquez previously served as a Deputy Mayor for Housing, twice as a federal government official, serving as Senior Counsel to Secretary Andrew Cuomo and in the Obama Administration as Assistant Secretary for Community Planning and Development at the U.S. Department of Housing and Urban Development (HUD), an affordable housing developer, a civil rights litigator, and as General Manager of Housing for Los Angeles, the department that crafted the City's response to the foreclosure crisis.