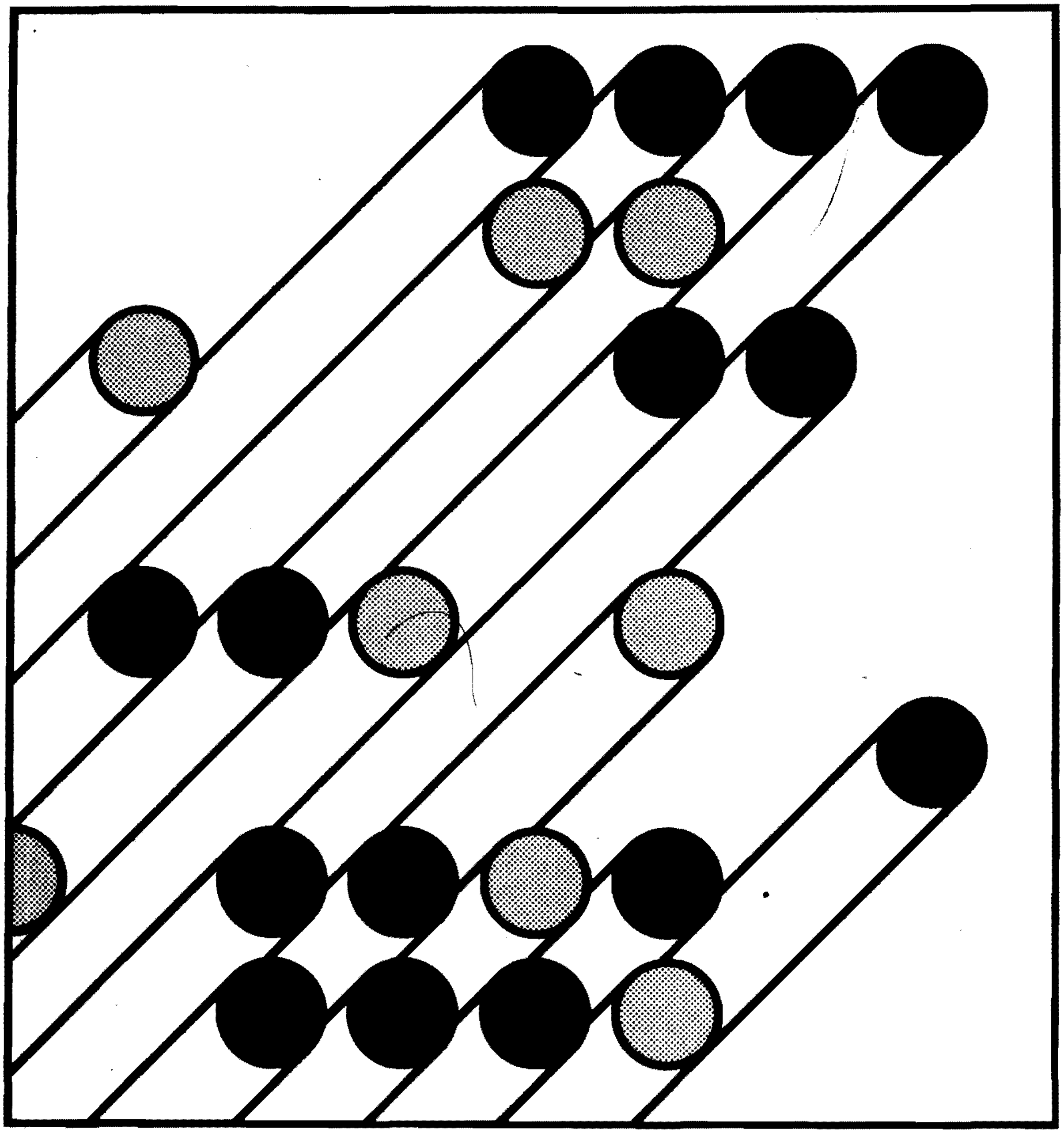

PUBLIC HOUSING OPERATING SUBSIDIES

A Staff Study
December 1975

U. S. Department of Housing and Urban Development
Assistant Secretary for Policy Development and Research
Office of Program Analysis and Evaluation

Public Housing Operating Subsidies

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This is a reprinting of a paper originally circulated in December 1973.

Preface

This staff study was prepared by the Office of Program Analysis and Evaluation under the Assistant Secretary for Policy Development and Research. The analysis and conclusions are those of the Office of Program Analysis and Evaluation and do not necessarily reflect the opinion of the Department of Housing and Urban Development.

Staff studies prepared by members of the Office of Program Analysis and Evaluation include:

Causes of Multi-Family Defaults, July 1975 (PB244662/AS)
Disposition of Foreclosed Houses, August 1975 (PB247634/AS)
HUD-FHA Condominiums: Their Future, August 1975 (PB247630/AS)
Coordination of Federal Planning Programs, October 1975
Allocation Issues in Section 701 Planning Grants, October 1975
Multi-Family Property Disposition, October 1975 (PB247631/AS)
Counseling for Delinquent Mortgagors, November 1975
Public Housing Operating Subsidies, December 1975
Section 8 Housing Assistance Payments Program: Existing Housing, August 1976

Copies of the above studies may be obtained from the Program Information Center, Department of Housing and Urban Development, Washington D.C. 20410, or the National Technical Information Service (NTIS), Springfield, Virginia 22161. The "PB" number should be mentioned when ordering from NTIS.

CONTENTS

Introduction

This paper was written and originally distributed in December, 1973. It has been reprinted because it continues to provide a valuable overview of public housing experiences, explanation of the problems confronting housing officials, and discussion of alternative government strategies. As a preface, however, a few comments should be made on the developments in the public housing program since 1973.

The number of units in conventional public housing was 664,000 in CY 1968. This figure rapidly increased to 1,032,400 in FY 74, and is expected to reach 1,112,000 by the end of FY 77. As the same time operating subsidies rose from a level of $35 million in FY 70, to $280 million in FY 74, and they are expected to be $576 million in FY 77.

The Department has undertaken three initiatives to deal with the problems posed by increasing levels of operating subsidies. First, in 1975, the Department began allocating operating subsidies by a package of formulas called the Performance Funding System, which is designed to objectify the method of subsidy allocation. Second, some housing authorities with particularly troubled projects are receiving extra operating subsidies, under the Target Projects Program, with the intent of alleviating some of the problems described in this paper (vandalism, personal crime, vacancy losses, etc.). Third, some housing authorities are receiving subsidies from the Management Improvement Program, designed to improve an array of management services and systems used in public housing.

At the present time the Department is evaluating the impact of these initiatives, and exploring alternative strategies to improve the method by which public housing operating subsidies are allocated. In addition to the ten strategies outlined in the paper, an alternative that may warrant consideration is the "lump sum" approach. It is likely that there are a number of inefficiencies that stem from having housing assistance coming under one program, from one agency, welfare assistance from another source, food purchasing assistance from a third, and so on. For this reason, there are a number of advantages in dealing with all forms of assistance in a "lump sum".

I. PURPOSE OF THE PAPER

The purpose of this paper is to analyze the growth of public housing operating subsidies in recent years in LHA-owned units and develop alternative strategies for limiting the Federal contributions to the operating deficits of local housing authorities. The factors contributing to the deteriorating financial position of LHAs will be discussed, trends in income, expenses, and vacancies will be presented, and various strategies for achieving the overall Federal objective will be suggested.

This paper will not determine the precise contribution of each causal factor, although an attempt is made to assess the relative order of magnitude of some of the factors contributing to the growth of operating deficits. The paper will, however, briefly outline a research design for a subsequent study of the independent effect of a variety of factors.

Section II states the problem to be analyzed and Section III describes the factors contributing to the problem. In Section IV the Federal objective is discussed, and strategies for achieving this objective are presented in Section V. Section VI contains a list of questions the answers to which would shed further light on the problems of public housing.

II. STATEMENT OF THE PROBLEM

Federal operating subsidies for public housing have been increasing dramatically in recent years. From a level of $35 million in FY 1970, operating subsidies have risen to $280 million in FY 74. The original and traditional division of responsibilities between Federal and local authorities -- with the Federal role limited to debt retirement, while local housing authorities remained self-sufficient regarding total operating costs -- has given way to a broad Federal responsibility for a significant share of the month-to-month costs of operation.

This new role for the Federal Government has been legislatively affirmed by (1) the Housing and Urban Development Act of 1970; (2) by the Brooke Amendments which set a rent limitation at 25 percent of income and forced welfare authorities to stop docking welfare benefits of people moving into public housing; and (3) by the Congressional removal in 1972 of the statutory limitation on total annual contributions. Although the traditional Federal role began to change in 1961 with the development of special subsidies to certain categories of families, Federal contributions to operating expenses did not reach a noticeable magnitude until 1970, from which point they mushroomed.

Over the four year period 1968-1972 rental income per dwelling unit has fallen by 17 percent. Over the same period total routine operating expenditures per unit have risen by 17 percent, although non-routine and capital expenses have fallen by 22 percent.* With revenues edging downward and routine costs rising steadily, many local housing authorities have

* excludes funds expended through modernization program which have grown from $1 0 million in 1968 to an estimated $87.5 million in 1974.

curtailed or deferred their own budget allocations for extraordinary maintenance and modernization and have turned to the Federal Government for added financial assistance.

Moreover, the vacancy rate in public housing units available for occupancy is low and has hardly changed at all in the past five years (fluctuating between 2 and 3 percent). The fall in rent per unit cannot be compensated for on a national basis by an increase in capacity utilization unless a major effort is made to prepare unavailable units for occupancy, and many of these units may be beyond repair. Thus, with the Brooke Amendments in force, rental income for the existing public housing stock appears frozen unless a significant share of tenants is paying less than 25 percent of income and rents for such tenants are raised to the legal maximum.

Of course, there are great differences among (and within) LHAs with respect to the extent of these developments. In some parts of the country or in some types of projects, public housing today is not significantly different from the way it was three decades ago. In some small towns in the mid-West and the South, housing authorities are in sound shape, and in most major metropolitan areas there are some projects which are relatively safe and financially solid (particularly elderly projects). Others are the locus of vandalism, violence, and disease.

Many people who cannot afford or locate housing in the private sector are clamoring to get into the decent projects (hence the long waiting lists), but are avoiding the problem projects. The non-financial costs of moving into the bad projects -- high risk of crimes against persons and of vandalism, exposure of children to rats, deteriorating neighborhoods, etc.-- outweigh the potential savings in rent, with the result that the family is willing to pay higher rent in a private dwelling until what it considers a decent public dwelling becomes available. Thus, in public housing today we have very different bundles of housing services offered to buyers at essentially the same price. Under these conditions the rational buyer will elect to wait until he can obtain the better package for this price.

There are no easy solutions to the problem in public housing today; indeed, simply sorting out the factors that appear to be contributing to the problem, as is done in the following section, can be difficult.

III. FACTORS CONTRIBUTING TO THE PROBLEM

The explanation for the rising deficits and the corresponding increase in the Federal obligation involves a number of diverse, but frequently inter-related financial, social, legal and political factors. Observers of recent trends in public housing have often attributed all of the problems and developments in public housing to one factor. For instance, some contend that the Brooke Amendments, which limit receipts available to public housing authorities, are entirely responsible for the current situation, while others suggest that this situation could be completely rectified by an improvement in the management of public housing. These single causal explanations are misleading and may lull policymakers into believing that if they control or change the one factor in question, the problem will disappear.

The present proposals for coping with rising operating costs reflect this problem. For instance, the Widnall and Sparkman proposals, which set minimum rents, attack only the decline in revenues, while the prototype management system attacks only poor management. These proposals may have merit, but they should not be viewed as solutions to the problem.

Many of the problems confronting public housing are the same as those experienced by private multi-family dwellings. For example, vandalized public housing projects with "bombed out" apartments and high vacancies manifest the same symptoms as abandoned private dwellings. The only difference may be that the Federal Government keeps public housing projects operating through massive doses of operating subsidy, while in the private sector such buildings would be abandoned. In each case, public and private, the factors causing the phenomena lay pretty much buried.

A more sophisticated, longer-term study should assess the relative importance and independent effects of the following explanatory factors (and others which may be uncovered). Here we will only describe some of them and briefly discuss their interaction. Throughout this section the difference between national totals on income, expenditures, vacancies, and tenant characteristics and data from Chicago and Boston, where field visits were recently made, will be cited. In addition, variations among projects in these cities will be highlighted. This is meant to be illustrative of the need for disaggregating the data to the project level for purposes of analysis.

This discussion will be divided into two sections. In the first section, the three developments contributing to the increase in operating subsidies — increase in units, falling revenues, and rising costs — will be discussed. In the second, some explanatory factors which may account for these developments will be discussed.

1. Developments responsible for increasing operating subsidies

Tables 1 and 2 indicate the recent growth in public housing operating subsidies. There are several reasons for the increases shown.

a. Increase in units

One of the key factors accounting for the increase in operating subsidies is the growth in the number of units. While in CY 1968 there were 664,000 units, by FY 1974 this number had grown to 1,032,400. The $280 million in operating subsidies for FY 74 would be only $182 million if we standardize for the number of units. In other words, the total bill would be $98 million or 35 percent less if there had been no growth in the program.*

It appears that the LHA-owned public housing will not be growing as rapidly as in recent years, so that one of the primary causes of growth in the Federal operating subsidy bill may be removed. However, to the extent that the new units have been accounting for a disproportionately small share of the cost, the favorable impact of this development will be attenuated.

b. Falling revenues — the impact of the Brooke amendments

The first Brooke Amendment limited the public housing resident's

* This figure assumes that the new units have the same PUM subsidy costs as the national average. If the new units are disproportionately in high-cost areas, the $98 million figure may underestimate their contribution to the current total bill for this reason. However, if the new units are cheapter to maintain, this factor would tend to cause the above figure to be an overestimate. (The $98 million, of course, included the increasing costs of utilities, maintenance, etc. up to 1974 for the units built after 1968.)

TABLE 1

THE CHANGE IN OPERATING SUBSIDIES
CY 1968 TO FY 1974

AMOUNT	CAUSE	ANNUAL RATE OF CHANGE OF THE ITEM
$280 MILLION	apparent total change in operating subsidies	
6	will be returned to HUD in residual receipts	
274	real total change in operating subsidies	
98	because there are more units in 1974 than in 1968 1/	
176	total change (in operating subsidies) among units which existed in 1968	
47	per unit, lower rental income than in 1968	-2%
3	per unit, lower "other" income than in 1968	-2%
127	total change (in operating subsidies) caused by increased expenditure	
55	per unit, higher utilities than in 1968	7%
46	per unit, higher ordinary maintenance 2/ than in 1968	5%
18	per unit, higher administration 3/ than in 1968	4%
7	per unit, higher tenant services than in 1968 4/	-
5	per unit, higher general expense than in 1968	1%
-4	per unit, lower non-routine and capital expenses 5/ than in 1968	-2%

NOTE: Detail may not add to toals because of rounding.

1/ The $98 million includes, of course, the increasing costs of utilities, maintenance, etc. up to 1974 for the units built after 1968.

2/ About 70% of this is labor.

3/ Over 80% of this is salaries.

4/ These were zero in 1968

5/ These only refer to capital expenses not funded under annual contracts.

TABLE 2

U.S., Average Operating Costs in Conventional Public Housing
CY 1968 to FY 1974

ITEM	CY 68 Costs Actual	CY 72 Costs Actual [1]	FY 74 Costs Estimated	Annual rate of change C68–C72 Actual	Annual rate of change C72–F74 Estimated
Income:					
Dwelling Rental	$47.13	39.00	$41.25[2]	-5%	3%
Other Income	261	3.00	2.25	NC	NC
Total Income	.74	42.00	43.50	-4	1
Expenses:					
Administration	8.23	9.43	10.44	3	4
Tenant Services	.00	1.02	.87	—	-6
Utilities	12.09	15.00	19.01	6	10
Ordinary Maintenance	17.18	21.00	22.89	5	4
General	7.12	7.92	7.77	3	-1
Subtotal, Routine	44.63	54.00	60.98	5	5
Extraordinary Maintenance	2.48	1.85	2.44	-7	12
Replacement of Equipment	.75	.58	.75	-6	11
Betterments & Additions	1.83	.73	1.10	-20	18
Other Non-Routine	.09	.84	.33	NC	NC
Subtotal, Non-Routine	5.15	4.00	4.62	-6	6
Total Expenses	49.78	58.00	65.60	4	5

1 Adjusted where the "Brown Book" seemed to contain errors.

2. This differs from the $41.75 HM estimate because this only includes dwelling rental, not all rental income.

NC Not calculated.

rent to 25 percent of adjusted income. The allowable adjustments to income were broadened in the second Brooke Amendment, and in 1971 the third Amendment was added, stipulating that welfare authorities could not lower welfare benefits for public housing tenants.

The percent of households paying greater than 25 percent of their gross* incomes has fallen percipitously since 1968, and this clearly reflects the effect of the first Brooke Amendment. While in 1968 30 percent of re-examinations and 38 percent move-ins were paying more than 1/4 of their gross income in rent, by 1973 these figures were only 2 percent and 11 percent, respectively. (It is worth noting that some LRPH tenants are paying a greater proportion of income for rent than the law permits.)

The 25 percent of income ceiling imposed by the first Brooke Amendment did not automatically limit the revenue available to LHAs. The lowering of rent for those tenants previously paying greater than 25 percent of income could theoretically have been offset by rent increases for those tenants who were paying less than 25 percent of income for rent. The average income of tenants rose between 1968 and 1973, indicating that the 17 percent drop in rental income to LHAs per dwelling unit between 1968 and 1972 was caused mainly by a decline in the fraction of income paid for rent by the average tenant. The Brooke Amendments have had a negative impact on the income of LHAs for the country as a whole.**

* Distribution of rents as percent of adjusted income is not available. The fraction paying more than 25 percent of adjusted income would be higher than these figures.

** Assuming LHAs did not lower rents as a fraction of income for some other, non-legal reason.

The most reliable measure of average tenant income* that is available is an average of mean elderly income and mean non-elderly income, weighted by the known proportions of elderly and non-elderly households. This weighted mean is shown in Table 3, column 1. Average gross income has risen from $3,272 in 1968 to $3,515 in 1973, an increase of 7.4 percent.

Average adjusted incomes (excluding medical adjustments) have risen more than twice as rapidly (15.5 percent) as average gross incomes, resulting from a decline in the utilization of deductions. (See Table 3, column 2).

In the face of this increase in income, mean rent (calculated as a weighted average of mean elderly rent and mean non-elderly rent) has dropped from a high of $56.08 in 1969 to $50.77 in 1973, a decline of 9.5 percent (Table 3, column 3). As a consequence of these developments, mean rent as a fraction of adjusted income has fallen from 28 percent to 23 percent (Table 3, column 4), reflecting the effect of Brooke I.

If Brooke had not been passed and tenants were still paying 28% of adjusted income, (assuming other factors held constant), LHAs would now have $10-11 per unit month more income. Brooke has thus seemingly removed a potential rise in rents from $56 to $61 PUM that would have resulted from rising income and has caused instead an actual fall from $56 to $51 PUM. It is of course possible that the Brooke Amendments as a group have had the additional impact of making LRPH more attractive to lower income families, and that in the absence of these Brooke Amendments adjusted income would be even higher than $2,627. Thus, Brooke may have had an indirect as well as a direct effect on the revenues of LHAs.

* By income is meant income for purposes of determining rent of tenants, not for determining eligibility or continued occupancy.

TABLE 3

	1 Mean Gross Income	2 Mean Adjusted Income	3 Mean Actual Rent	4 Rent As Percent Of Adjusted Income
1/68 - 9/68	$3,272	$2,275	$53.20	28%
10/68 - 9/69	3,408	2,425	56.08	28%
10/69 - 9/70				
10/70 - 9/71				
10/71 - 9/72	3,427	2,498	51.35	25%
10/72 - 3/73	3,515	2,627	50.77	23%

Assuming that the Brooke dependency allowances were roughly the same as those used by LHAs prior to Brooke and that the rent/adjusted income ratio would be 28 percent now if Brooke had not been passed, instead of a $47 million negative contribution to the current operating subsidy, as reported in Table 1, rental income trends (CY 68 to FY 74) would have had an estimated positive impact of $24 million. Therefore, a rough estimate of the <u>direct</u> impact of Brooke on the loss of rental income is $71 million. Thus, one factor contributing to the rise in operating subsidies is the fall in the fraction of income paid by tenants. The resultant decline in dwelling rental accounted for $47 million of the $280 million operating subsidy for FY 74 (see Table 1).

c. <u>Increased Expenditure by LHAs</u>

The steady upward drift in operating costs* has contributed to the deteriorating financial position of LHAs. Indeed, this upward drift in costs, combined with falling revenues, defines the financial problem facing housing authorities.

However, as will be argued in the next section, limited field visits and trends in vacancy rates indicate that LHAs are faced with fundamental problems involving crime, drugs, and increased welfare dependency that may be posing an even more serious threat to the long-run financial viability of public housing that is not apparent from an examination of current expenditures.

* includes utilities, administrative expenses, ordinary maintenance, tenant services, general expenses, extraordinary maintenance, replacement of equipment, and betterments/additions.

Total operating costs increased from $49.78 P.U.M. in CY 1968 to $58.00 P.U.M. in CY 1972, an increase of 16.5 percent. This is about the same cumulative rate of increase as in the rental shelter component of the Consumer Price Index (16.4 percent over this period). Thus, the rise in operating costs for public housing was quite consistent with the inflationary trends for the country as a whole. This would seem to indicate that the LHAs and HUD Area Offices have done a creditable job in holding down the rate of increase in operating costs over the four-year period. (This does not, of course, mean that the real cost of operating public housing did not rise faster than the rental shelter component of the Consumer Price Index. Some costs may have been deferred by the LHAs, and the Housing Management survey of 59 LHAs should shed light on the extent to which this may have happened.) Table I shows that an estimated $127 million of the $280 million operating subsidy increase between CY 1968 and FY 1974 can be accounted for by an increase in operating costs, mostly accounted for by general inflationary trends in the economy.

Total operating costs in Boston ($104.16 P.U.M.) were 75 percent greater than the national average in FY 73, and had grown by 36 percent since FY 70*, also more than twice as fast as the 1968-72 increase for the nation as a whole. In Chicago total operating costs were $96.66 P.U.M. in FY 73, up 41 percent from FY 68. Although the level of and the rise in the cost of living in these cities has been considerable over this period, these differences in operating costs do not fully explain this disparity.

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* data from Boston not available prior to 1970

From the results of this limited sample, the operating cost differences among public housing projects cannot be explained away by the age of the population served (Table 4). For example, in Chicago, Dearborn, primarily a non-elderly project, has the highest total operating costs on a PUM basis of $105.96, while Senior Housing, an elderly project, is the lowest at $36.93. However, other projects with low total costs are LeClaire Extension ($49.87) and Wentworth ($58.07), and the percent elderly in these three projects is only 8 percent and 1 percent, respectively. LeClaire and Wentworth serve about the same fraction of elderly as Cabrini-Green (3 percent), but the latter's total cost is $91.39 PUM. Moreover, Hilliard, which is 56 percent elderly, has a total cost of $86.34.

While the so-called "problem projects" generally seem to have higher operating costs than the so-called "good" projects, as described by CHA officials, there is no clear relationship between a project's image and its overall cost. Cabrini-Green and Robert Taylor, which probably have the worst images, have total costs of $91.39 and $92.36, respectively. Julia Lathrop and Hilliard, both serving about an equal number of elderly and non-elderly residents, and proudly presented as models of relatively good urban public housing, have total costs of $86.99 and $86.34, respectively -- only slightly less than the two "problem" projects. Moreover, other projects which receive virtually no notoriety and are not listed as problem projects by CHA officials -- such as Dearborn and Horner -- have costs that exceed those at Cabrini and Taylor.

TABLE 4

Selected Characteristics of Projects Visited

Chicago	Percent Vacant[1]	Percent Elderly[1]	Percent Minority[1]	Percent on Public Assistance	Percent Children[2]	Designation by IHA officials regarding problem
Cabrini-Green	13	3	99	75[2]	70[2]	bad
Robert Taylor	9	3	100	83[2]	77[2]	bad
Julia Lathrop	1	51	35	44[2]	52[2]	good
Boston						
Columbia Point	12	28	62	87[3]	60[3]	bad
Mary Ellen McCormack	1	52	2	44[3]	40[3]	good

1 12/71

2 12/72

3 12/71, based on very small samples of admissions

There are a number of extenuating circumstances that can explain some of the variation in total costs by project. For instance, at LeClaire Extension ($49.87 PUM) the residents pay over half of the utility expense themselves, so that the total cost figure would be $10-15 more if this cost were included as it is for the other projects. Dearborn ($105.96 PUM) had extraordinary maintenance of $20.04 in FY 73 -- well above average -- probably reflecting a major overhaul in FY 1973. This illustrates the danger of examining records from only one time period.

If the distribution of expenditures among projects within an LHA is to be an indicator of the extent of problems in the LHA, one would expect this to show up in the category of routine maintenance and operation. There should be a direct relationship between vandalism, for instance, and routine maintenance and operation expenses. One would expect utility costs, administration costs and general expenses to vary little over projects within a city, while the variation in non-routine operating and capital costs should reflect such factors as age of stock to at least as great a degree as they reflect social problems.

The evidence supports this supposition, as there is a clear relationship between the level of ordinary maintenance and the extent of social problems at the projects (as best as the latter could be determined for this preliminary report). The national average for ordinary maintenance in public housing was $21.00 in CY 72, 22 percent higher than in CY 68, and is projected at $22.89 for FY 74. By comparison, the average for Chicago in FY 73 was $43.61, an increase of 66 percent over FY 68 and the average for Boston was $41.59, up 39 percent over 1970. Thus, ordinary maintenance was double the national average in these two cities.

Among the projects visited on the field trips, ordinary maintenance cost does seem to reflect the extent of the problems that these projects are facing. At Cabrini-Green and Robert Taylor, where the problems appeared almost overwhelming, ordinary maintenance was $50.17 and $56.13 PUM, respectively. At Julia Lathrop, which was reported as a sound and stable project, ordinary maintenance was $34.52. Further indication that this budget item reflects the degree of social problems is given by comparing the figure for Senior Housing (all elderly), only $16.80 to the figure for Madden Park (which has had problems, although it has not received much publicity), $63.18, or almost four times greater than for Senior Housing.

At Columbia Point in Boston, where the situation seemed the most serious and discouraging of the places visited, ordinary maintenance was $40.21, compared to only $27.98 at Mary Ellen McCormack, which although located only a few blocks away from Columbia Point, has a completely different clientele and is basically in no trouble.

Similar results can be gleaned from an examination of expenditures for replacement of equipment, although this is a relatively minor component of an LHAs budget. While Robert Taylor and Cabrini-Green spent $1.46 and $1.16 PUM for replacement of equipment, (compared to a national average of $0.58) the corresponding figures for Julia Lathrop and Senior Housing were only $0.55 and $0.08 PUM.

Some cautionary notes are worth mentioning here. First, these relationships are not hard and fast; there are exceptions. Second, we do not know that problems of crime, drug use, broken families, etc. are actually causing higher expenses, we only observe a simple association between them. Third, lacking data at this point on extent of drug use, vandalism, etc. in the projects, we can only infer from minimal observation and discussion with local officials that there is a substantially higher incidence of these problems in certain projects. We do have data on broken homes by project for Chicago, and this will be presented in the next section. Finally, we do not know much about the accuracy of the expenditure data or the relative effectiveness of LHA expenditures on various items.

For the nation as a whole higher operating costs accounted for about $127 million, or almost one-half of the $280 million in operating subsidies in FY 74. About two-fifths of this amount, $55 million, was accounted for by higher utility costs while about another third, $46 million, was attributable to higher ordinary maintenance (see Table 1). Roughly 70 percent of this increase in ordinary maintenance was labor cost.

Since higher labor costs account for such a large amount of the operating subsidy bill, it is worth emphasizing that the great bulk of this labor is performed by non-tenants, typically unionized craftsmen. In Chicago, we were told, craftsmen employed by the LHA earned, on the average, $20,000 per year. Some tenants were employed as janitors, but no real progress was being made to get tenants into better paying jobs. This is not to blame the CHA, necessarily, as union resistance to minority apprenticeship has been a major problem in the U.S., particularly in Chicago.

2. Explanatory factors underlying these developments

a. Changing Client Mix

Public housing is serving a larger proportion of welfare families now than five years ago. While the change in client mix toward more welfare families may contribute directly to greater operating deficits by lowering LHA income, (if welfare families have lower incomes than the average public housing tenant), the question remains as to whether it also imposes indirect costs because of the social problems facing the welfare eligible population.

There is no clear relationship between the income of tenants in a project and these indirect costs, because among other reasons, the elderly tend to be the lowest income group, but probably cause the least trouble, so that projects such as Lathrop or Hilliard in Chicago which are about one-half elderly tend to have low operating receipts but also low costs, particularly routine maintenance costs. However, routine maintenance costs do tend to be higher in the "problem projects" than in those non-problem projects that are almost exclusively non-elderly.

In Boston, Columbia Point is in deplorable condition. In the high-rise buildings, filled largely with broken families having many children, there is an overwhelming incidence of violence, hard drugs, and vandalism. Many of the windows are broken, there is garbage and glass in the hallways and corridors, the vacant units have been stripped of all salable materials and are either littered with refuse or have been fire-bombed, and the walls and doors have been defaced. About one of 7 or 8 of the units are vacant. About two-thirds of the residents are minorities, roughly one-fourth are elderly, and 87 percent are receiving public assistance.

At the same time three to five blocks away from Columbia Point is the Mary Ellen McCormack project. The contrast between these two projects, located in the same general neighborhood, is quite striking. Mary Ellen McCormack has only a few vacant units; the buildings, while considerably older than those at Columbia Point, are in much better condition. While there is some crime, the tenants do not live in fear and it appears to be a setting in which people can live with some decency, albeit modestly. The management of the two projects did not seem to differ in their approach or their outlook. As stated above, the physical stock at McCormack was older than that of Columbia Point. The primary differences which could be discerned were (1) client mix and (2) building design. Mary Ellen McCormack is 98 percent white and about one-half elderly. (See Table 4). The buildings are all low-rise walk-ups.

Project managers believe that client mix is the key to the social problems which they contend are raising their maintenance costs. We cannot conclusively establish that this is the case at this time. What is known is that tenants are voting with their feet regarding these projects. The "problem" projects are characterized by hundreds of vacancies, while the other projects have virtually no vacancies. If project managers and local officials are correct that the increasing presence of broken families is causing the crime and destruction, then by gradually draining these projects of their decent tenants, this population poses a long-run threat to the financial viability of LHAs. No firm conclusion about this can be drawn at this time.

The passage of Brooke III increased the incentives for welfare recipients to live in public housing because it denied welfare authorities the right to dock a client's benefits as a result of his public housing benefits. This created windfall gains for some recipients of public assistance. For example, if a woman was receiving a $70 month rental allowance from AFDC and has an adjusted income for public housing purposes of $200 per month, her rent will be no greater than $50 per month (due to Brooke I) but she cannot lose any of the $70 rental allowance. Hence, if AFDC does not find a way to cut some of the rest of her welfare benefit, she pockets $20 per month which can be spent on other goods.

There has been a steady increase in the proportion of households in public housing receiving some form of public assistance, and the sample data from Chicago indicate that if this city is representative of major cities, the incidence of public assistance among public housing tenants is considerably steeper in the major cities. This is not surprising, since the welfare caseload is disproportionately located in large urban areas. While in 1968

36 percent of public housing tenants whose incomes were examined were receiving some form of public assistance, by 1973 this figure had risen steadily to 46 percent. By comparison, in the Chicago Housing Authority's Federal non-elderly projects, the proportion of people in residence receiving benefits from at least one public assistance program was 40 percent in 1968, and by 1972 this figure had jumped to 73 percent. In Cabrini-Green, the fraction of tenants receiving some public assistance jumped from 42 percent in 1968 to 75 percent in 1972. The corresponding figures for Robert Taylor in Chicago are 49 percent and 83 percent, and for Julia Lathrop, 24 percent and 44 percent.

With respect to Aid to Families with Dependent Children (AFDC), the proportion of families in Federal non-elderly projects in Chicago receiving such benefits jumped from 29 percent in 1968 to 61 percent in 1972. The corresponding figures for Cabrini-Green were 30 percent and 65 percent; for Robert Taylor Homes, 41 percent and 73 percent; and for Julia C. Lathrop, 12 percent and 30 percent. Of course, the welfare rolls were rising sharply during this period, and it is not now known whether the increases in the fraction of welfare clients in public housing exceeds that in private housing in comparable neighborhoods.

A related development is the sharp increase in the incidence of broken families in the Chicago Housing Authority Projects. In the Federal non-elderly developments the percentage of broken families jumped from 48 percent in 1968 to 66 percent in 1972. The corresponding figures for Cabrini-Green were 50 and 70 percent; for Robert Taylor Homes 52 and 73 percent; and Julia C. Lathrop, 27 percent and 29 percent. The latter figures indicates a greater degree of stability in family structure found in the Lathrop project.

Another disturbing set of figures involves the proportion of the households in public housing in which no family member is working. In 1968, 33 percent of those public housing residents in the United States whose incomes were re-examined had no worker in the household, while 44 percent of the move-ins fell into this category. In 1972, however, 48 percent of the re-examinations had no worker, and the corresponding fraction for move-ins was over 50 percent.

It is interesting to note here that the racial composition of public housing occupancy in the United States has remained virtually unchanged over the past 5 years in spite of the noticeable changes in family structure and eligibility for public assistance. For the Nation as a whole, the percentage of Blacks in public housing has edged downward slightly from 51 percent to 49 percent. The Chicago Housing Authority reports that while 92 percent of their tenants were non-white in 1963, by 1968 this figure had fallen to

84 percent and in 1973 was 82 percent. It appears, then, that while public housing is serving the different color groups in roughly the same proportions now as it was several years ago, it is now serving subgroups within those color groups -- particularly welfare recipients and elderly -- in noticeably different proportions.

The change in client mix may also be related to the Urban Renewal program. People relocated by this program -- often the very poor -- were frequently placed in public housing.

b. Increased vacancies in problem projects

Although "available" vacancies in public housing for the Nation as a whole have not increased, vacancy data obtained from the Chicago Housing Authority on a project-by-project basis tell a remarkable story. There were only 235 vacancies in this LHA as of December 13, 1968. Two years later there were 1505 vacancies, a sixfold increase. In Cabrini-Green, there were only 39 vacancies at the end of 1968, but two years later there were 669, or seventeen times as many. The corresponding figures for Robert Taylor Homes are 44 and 349. By contrast, there were 6 vacant units in Julia Lathrop in 1968 and only 2 vacant units in 1970. These figures tell a story that is hidden even in a project-by-project analysis of operating budgets.

Interestingly, vacancies in Chicago dropped significantly from the end of 1970 to the end of 1971, then remained about level through the end of 1972. At that time there were 1,051 vacancies of which 775 or 74 percent were located in either Cabrini-Green or Taylor, while the remaining 276 were scattered among the other 17 developments.

There has been a sharp increase not only in the number of vacancies in Chicago, but also in the duration that the units are vacant. For the total CHA, the average days lost per unit that became vacant in the first quarter of 1969 was 12.6, while the corresponding figure for the first quarter of 1971 was 44.9. Moreover, although the total number of vacancies was considerably lower at the end of 1972 than at the end of 1970, the average duration of vacancies during the first quarter of 1973 (39.2) was only slightly less than that of the previous two years. While 1,063 units were vacant at the end of 1972, as noted above, 2,460 apartments were subject to vacancy loss during the ensuing quarter and a total of 96,371 days of vacancies were reported for this quarter, compared to 15,172 days for the first quarter of 1969.

During this quarter a vacancy averaged 64.7 days in Cabrini-Green and 61.7 days in Robert Taylor Homes, as compared to only 21.1 days in Julia Lathrop and 7.4 days in Trumbull.

It seems quite plausible that the presence of vacancies, particularly for a long duration, causes or contributes to many of the problems that plague public housing today. However, this is offered as a testable hypothesis, not a confirmed precept. Vacant units appear to attract criminals who strip them or everything of value and lure squatters who move in with no intention of paying rent. Indeed, the feeling that vacant housing units have a deteriorating effect on adjacent housing units is a widely-held belief among real estate people. An even more fundamental question to be wrestled with is: what is causing the increased vacancies?

c. Increased awareness and assertion of rights by tenants

There appears to be an increased awareness on the part of tenants of their legal rights and a greater willingness and ability to assert these rights. In part this has resulted from efforts by welfare rights organizations and legal aid groups to encourage tenants to push for better housing services and take decisive action if these services are withheld.

This new aggressiveness by tenants in some areas poses a dilemma for policymakers. If (or where) the tenants are justified in their claim that housing services in public housing are so deplorable that the rents being asked by them, however nominal, are excessive, then more services should be provided or the price of the current bundle of services should be lowered (perhaps to zero). If (or where) such claims by tenants are unjustified, then some new means of dealing with these tenants (perhaps a speed-up in eviction process) must be developed. Project managers report that it often takes 9 months to evict a tenant even though (in the manager's mind) there is clear cause for eviction. Hearings in front of public housing appeals boards, courtroom continuations, and other delays have permitted problem tenants to linger in residence months after they have committed actions that in the manager's mind are clear grounds for eviction.

To some extent this is a management as well as a legal problem. Some managers are spread so thin that they cannot possibly know their tenants personally or ascertain which tenants are trouble-makers. However, managers frequently find out who has committed a crime, but cannot take action against the criminal because the witnesses to the crime refuse to speak up out of fear of reprisal.

Of course, this is not a problem that is unique to public housing; it is found generally in poverty neighborhoods. Some of the managers of public housing, however, do not want to see it. They are discouraged about the difficulty of serving low income tenants, particularly young unmarried welfare mothers. Public housing today needs project managers who are not trying to wish away their problems, who acknowledge and accept the increasing share of hard-core poor among public housing residents. In some cases this may mean bringing in younger people who are more likely to be attuned to the special problems facing today's public housing resident.

A fairly recent development in public housing is the non-payment of rent, either via organized rent strikes, in which groups of tenants withhold their rent indefinitely, or more frequently via largely unnoticed, undramatic non-compliance with a rental agreement. Another development is "squatting," in which families move into vacant units without authorization and with no intention of paying rent. In many areas such activities are either non-existent or sporadic. But in other areas non-payment of rent is not a minor problem, and may be a harbinger of rising subsidy requirements in the future.

While non-payment of rent is insignificant in the overall budgets of LHAs at the present time, ($0.47 PUM in CY 72), they are definitely causing LHA officials some problems, and in the long-run may worsen the deficit position by contributing to further increases in vacancies because people who do not share these attitudes desert public housing.

d. Age of housing stock and building design

Another factor which may have contributed to the growth in operating subsidies is the age of the buildings and their design.

Public housing began about 3 1/2 decades ago, and one school of thought attributes the rising deficits in public housing largely to the fact that maintenance and repair bills have jumped as much of the stock reaches a critical age. Data in Table 6, indicating the age of the stock of public housing, suggest this may not be the case, however.

TABLE 6

AGE OF CONVENTIONAL PUBLIC HOUSING STOCK

	December 31, 1972	December 31, 1968
percentage of units 15 or more years old	43%	43%
percentage of units 5 to 14.99 years old	26	33
percentage of units less than 5 years old	31	24
TOTAL	100	100

Table 6 indicates that the stock is not really aging. Lacking a figure for average age, we look at age categories. The fraction of units 15 years of age or older at the end of 1972 is the same as that at the end of 1968, and the proportion of units under 5 years old has risen from 24 percent to 31 percent over this period.

However, it is clear that age of stock is not always the controlling factor in condition of stock. In Chicago, Lathrop homes was built in 1938 and the buildings appear to be in excellent condition. Cabrini-Green and its extension were built in the 50's and 60's, respectively, and Robert Taylor homes is also of this vintage, yet many of the buildings in these developments are in deplorable condition. Hence, it is important to consider the effect on the physical condition of the buildings of the behavior of the occupants.

Regarding building design, there is some evidence that the highrise design, which took over from the original 3 or 4 story walk-up design due largely to rising land costs, contributes to a variety of the behavioral problems in public housing. Elevators are persistently broken, which not only causes high maintenance bills, but also forces residents to walk up many flights of stairs, during which time they are vulnerable to being attacked or robbed. The corridors of these buildings are trouble spots in which a variety of activities can occur.

IV. THE FEDERAL OBJECTIVE

Let us assume that the Federal objective is to limit Federal expenditures for the day to day operation and revitalization of the public housing stock, and to confine the Federal role as much as possible to debt retirement. There are two basic strategies that can be followed to accomplish this goal: (1) serve a higher income group, and (2) continue to serve the present clientele either by charging them more rent, as a group, or by finding ways to cut costs.

In the face of rising expenditures, partially attributable to a change in the client mix, a recommendation of many observers is to change the client mix back to the groups traditionally served by public housing. In talking with some officials of LHAs and a few project managers, one is struck by the sense of nostalgia about the "good old days" when public housing served the young policeman or fireman with a wife and young child -- a temporary waystation on the route to the middle-class success story. There are references to the stable, ethnic neighborhoods, good solid citizens, etc.

What these officials appear to be doing is defining away the problem. They are saying that the problem in public housing today is the welfare poor and the way to solve the problem is to stop serving the welfare poor. To assume that the answer to rising deficits is a major shift in the client mix is to take the easy solution and avoid the tough question of how to serve the poor effectively and provide them with decent housing.

The Federal role in public housing has been altered by legislative action in such a fashion as to include some activities for which local governments have traditionally had responsibility, such as the provision of protective and social services to residents. In pursuing the goals of limiting Federal outlays for operating costs and narrowing the Federal role, therefore, it is important to develop incentives for local governments to play a larger role and shoulder a portion of the Federal burden. The alternative strategies outlined in the next section assume that the overall strategy is to serve the poor more effectively, not to abandon the present tenants in favor of an exclusively upwardly-mobile lower middle class and working poor clientele.

It is worth noting that this choice does not rule out <u>some</u> change in the client mix to enhance the social stability of public housing in inner-city neighborhoods. What it rules out is a radical change in the client mix that would totally ignore the welfare-eligible population.

There is no simple solution to the problem of holding down costs while continuing to provide housing to the poorest of the poor. Any strategy selected will involve some cost, either to the Federal Government, state or local governments, or to public housing tenants.

V. ALTERNATIVE STRATEGIES

As has been pointed out above, the financial situation in public housing can be described by declining revenues in the face of steadily-rising costs. Thus, assuming no legislative changes and a continuation of current trends in tenant income and operating expenditures, the outlook is for steadily-rising deficits in public housing. Unless some action is taken, the number of LHAs requiring operating subsidies and the amount of subsidies required by LHAs currently receiving subsidies will continue to rise in the future.

What are the alternative strategies for achieving the objective of holding down operating subsidy costs to the Federal Government without reneging on our commitment to provide safe and sanitary housing to people who cannot obtain it in the private market?

The ten options which are presented here can be categorized into four basic strategies. (A) those which freeze operating subsidies at the current level; (B) those which attempt to control or cure the problem through additional expenditures; (C) those which make additional HUD expenditures conditional upon the sharing of the growing financial burden between local and Federal authorities; and (D) those that attempt to raise additional funds from the tenants by serving a greater proportion of higher income eligible and/or by establishing a "floor" for public housing rents.

The first two options that comprise strategy (A) presuppose a larger federal role in LHA operating practices even though they involve a freezing of operating subsidies. These schemes involve a redistribution of funds within an LHA and would involve HUD in the determination of how operating subsidies are distributed among projects within a city.

Currently, HUD distributes operating subsidies to the LHA, not to the project. By contrast, the "business as usual" approach that is part of strategy (B) would leave the HUD role constant even though federal expenditures would continue to rise.

It should be noted that the options and strategies are not mutually exclusive. In many instances strategies from several options may be combined to produce a comprehensive plan.

A. Freeze subsidies at current level

Option 1 Redistribution of existing operating subsidy funds within LHAs from projects with long waiting lists to those with substantial vacancies

Option 1 involves rationalizing the distribution of operating subsidies and modernization funds to projects by allocating less funds to those projects offering a relatively attractive package of housing services and using the excess funds to enhance the attractiveness of projects with serious problems. The reduction in the subsidy going to good projects could be combined with increases in the rent in those projects to maintain the quality and quantity of services provided or the quality of such services would fall, bringing the services provided more in line with the rents currently paid. The decrease in subsidy would be justified by the long LHA waiting lists in the face of rising vacancies in certain projects which indicate that some projects are under-priced relative to others with respect to the services offered.

An explanatory note on waiting list procedures may be helpful. By law LHA's are not supposed to maintain separate waiting lists for each project. There is one waiting list for the LHA. A new applicant is offered a unit in a project with the greatest number of vacancies. Depending upon which of three plans offered to LHA's in HUD regulations is adopted, the applicant family may be offered from one to three projects. If it declines these offers, it goes to the end of the LHA waiting list, on which it presumably remains until an opening occurs at a project that it will accept.

In practice, of course, new applicants in Chicago, for instance, will be offered a unit at Cabrini-Green or Robert Taylor, and if they balk at that, which they typically do if they are not in desperate financial straits or unconcerned with safety, they go on the waiting list. Moreover, in practice, project waiting lists are often utilized, according to reports received on field visits. Hence, in many cases, applicants may be given the explicit choice between say Cabrini now and Lathrop (a desirable project) in a year.

This option would permit the same income group currently living in desirable projects to continue to live there and receive the same level of services by paying more rent. To the extent that most residents are paying close to 25% of adjusted income, either the level of services would fall or the Brooke Amendment would have to be modified or repealed so that tenants could pay a greater fraction of income for the same level of services. This option may encourage the gradual replacement of current tenants in good projects with those whose incomes are in the upper range of the eligible population and who therefore can pay the higher rent with no greater than 25 percent of their income. However, since the Housing Policy Review indicated that people equally as poor as those in public housing were paying more for housing, small rent increases for those in good projects may simply put them more on a par with people of the same income who reside in private housing.

In the bad projects with considerable excess capacity (vacancies), rents would be reduced as the subsidy is increased. Rents will approach a level which corresponds to the (lower) level of services provided at these projects. Hopefully, the expenditures will help correct the problems at the poor projects and the increased subsidy expenditure together with lower rents would cause vacancies to fall. Over time, the subsidy can be gradually reduced (the rents will edge back up again). This assumes, of course, that the projects are viable. As the amount of operating subsidy to these projects increases, the attractiveness of the projects will (hopefully) increase, bringing in a more socially stable clientele. This could affect the concentration of problem families currently living in these projects.

Ideally, the ratio of the length of the waiting list to the number of units should be constant across projects, if the services offered at the various projects are comparable.

It is worth noting that projects do not fall automatically into "good" and "bad" categories. In actuality, projects could be ranked with respect to a number of characteristics of services provided such as safety, condition of stock, cleanliness, etc. Nonetheless, there appear to be projects in each of the major cities with substantial vacancies and several projects in each of these cities with long waiting lists.

Furthermore, it is not clear how this plan could be integrated with the prototype management system currently being develop for HUD by the Urban Institute. To the extent that the "bad" projects are poorly managed, this option, by channelling funds where the need is greatest, may "reward" poor management and hamper the attempt to build up management incentives. On the other hand, the prototype management system may be criticized for channelling funds away from those people in the greatest need.

Option 1 entails the development of a formula for re-distributing existing levels of subsidy based on the quality of services rendered and the demand for those services. What is being sought is a set of market clearing rents that will tend to give as many "buyers" of public housing services as possible the quantity of those services they are willing and able to buy. This would be preferable to the current system which rations good slots at an artificially low price, permitting excess demand to pile up.

Advantages

* hold down cost to the Federal Government.
* permit a portion of those waiting to get into public housing to move into public housing; public housing benefits shared among more people.
* provide funds to problem projects without raising overall costs.
* more rational allocation of public resources.
* provide incentives for those in public housing with higher incomes to seek housing in private market as rents rise, opening up possibilities for others on waiting lists.
* gain the good will of tenants in poor projects who experience an increase in services and a decline in rent; a perception of greater concern on the part of the LHA management.

Disadvantages

* many people in good projects would experience rent increases (or a decline in housing services). Rent strikes and overall discontent may rise.
* difficult to determine market-clearing rents.
* may require legislative change (Brooke) that is hard to obtain in order to continue providing the same level of housing services in some projects.
* greater Federal involvement in the operating policies of LHAs.
* may be investing operating subsidy and modernization funds in projects whose long-term viability is questionable, because of neighborhood location and other uncontrollable factors.

* may tend to serve only the highest income eligibles in the most attractive projects within an LHA, if rents are raised to maintain the level of services provided.

* may create incentives for a project to become "bad" because funds will be channeled in the direction of bad projects.

Option 2 Freeze overall level of operating subsidies and terminate the operation of projects facing disaster

Under this strategy the majority of the projects in an LHA would receive slightly more funds initially due to the termination of a few of the worst projects, as the funds previously going to these problem projects would be reallocated among the remaining projects. After this temporary and small increase in funds, however, the remaining projects would receive no further increase in operating subsidies as a group, although a reallocation of funds among them could occur, perhaps according to the plan outlined in Option 1.

This option does not presuppose a wholesale destruction of public housing projects. There are some projects, however, where the quality of life is no better, if not worse, than that in private slum housing. In fact, in the private sector such housing would be abandoned by the landlord. In these cases, the Federal Government is not achieving the goal of public housing, and it may be a sham to ignore this situation and an uneconomic allocation of resources to prop up an unviable project with massive does of Federal subsidy. Neighborhood factors, poor building design, LHA allocation practices, or Federal legislation, have led to an untenable situation in such projects which render them unviable. These "unviable" projects are typically characterized by high (10-15%) vacancy rates.

Those projects deemed hopeless would be shut down and the property sold to the highest bidder (irrespective of the use to which it would put the land and buildings). The tenants in such buildings could be provided housing in a variety of ways. First, they could receive a voucher for rent in the private sector that is equivalent in value to the subsidy they are getting in public housing — as measured (one way) by the difference between the rent they were paying and the fair market rent for the size of unit they were occupying. Second, these tenants could be given top priority for a Section 8 rent subsidy. Third, such tenants may be relocated in HUD - acquired properties from such programs as Sections 235 and 236.

Advantages

* hold down total cost to the Federal Government.
* stop "throwing good money after bad" in hopeless projects.
* disperse the tenants causing the biggest problems who tend to be concentrated in a few projects.
* consistent with direct cash assistance and dispersal approach which has been tentatively endorsed by this Administration.

Disadvantages

* people in remaining projects are likely to get rent increases; this may cause a tenant mix of higher income-eligibles.
* it may be difficult to ascertain whether a project is hopeless.
* relocation may cause discontent or hardship among some, particularly the elderly.
* Federal Government may be accused of "copping out" of assisting hard-core poor.
* discrimination against those willing to move into these projects regardless of their problems. Many may be low income minorities whose housing opportunities are severely restricted in the private market (particularly if they have very large families).

* cost to relocate high and Federal Government must continue to pay debt service on demolished buildings, although property sales may affect some of the cost.

* it may be difficult to ascertain the value of the subsidy in order to pay that to displaced tenants.

* possible legal/administrative problems of providing priority in relocation to those dispersed from terminated projects.

B. Increase operating subsidies in an effort to control or cure the problems

Option 3 Catch-up funding

This option involves a sufficiently large infusion of additional funds for operating subsidies and modernization for the remainder of this fiscal year and for FY 75, so that by the end of FY 75 LHAs will be "caught-up" with their needs in the areas of modernization, deferred maintenance, protective services, and tenant services.

According to this plan HUD will survey the needs of LHAs in the near future and arrive at a dollar figure for meeting these needs by the end of FY 75. There are alternative ways of distributing funds among and within LHAs. One approach would give each LHA a composite score based on its relative need in several areas and then rank LHAs by these scores for purposes of distributing funds. Another plan, which could apply to a portion of the new money, would generate a discretionary fund to be used by Housing Management to "clean up" a few of the worst projects in the large metropolitan areas.

Advantages

* would make it financially feasible to serve same income group as at present if these expenditures are effective.

* if the "catch-up" concept works, it could save public housing from the present financial problem.

* minimizes dislocation of current residents.

* HUD would appear to be accepting the challenge of serving the hard-core poor.

* Federal Government would appear as though it were at least trying to achieve objective of providing housing superior to slum housing.

Disadvantages

* there is no evidence that a one-shot expenditure will solve these problems which seem to be complex and recurrent.

* catch-up presupposes that tenant income will rise as fast in the future as operating costs and that the impact of other factors, including Brooke, on tenant mix, has run its course.

* it will be difficult to establish that "catch-up funding" would be a once-and-for-all expenditure.

* this strategy lacks a clear-cut overall objective or plan for solving the public housing problem.

* "good" public housing would be even more under-priced.

Option 4 Commitment to increase operating subsidies continuously to meet growing deficits in future years

This option commits HUD to pick up the difference each year between steadily expanding costs and declining revenues.

Advantages

* HUD would be fulfilling its current legislative obligation to house the poor at no greater than the specified contribution rate by the poor.

* HUD would appear to be sustaining a commitment to the poor; political repercussions from spokesmen for low-income families would be minimized.

* when the growth rate of operating subsidies per se is examined, it appears astronomical, but when the growth rate of the total Federal financial commitment to public housing is examined, (ACC plus operating subsidy) the growth rate is in line with the overall increase in the cost to the government of assisting low-income families.

* if the increased expenditures in the near future are successful in bringing operating costs and revenues into line, the bill HUD pays in subsequent years may grow less rapidly than is currently anticipated.

* consistent with certain aspects of New Federalism (i.e., minimum Federal involvement in local affairs).

* HUD does not take blame for lack of action.

Disadvantages

* open-ended financial commitment with no end or ceiling in sight; unattractive to average taxpayer.

* there is scant evidence that such a continuous stream of funds will solve fundamental problems in public housing. Indeed, these problems may worsen in spite of such expenditures.

* the current situation, in which good projects under-charge tenants and bad projects, with high vacancy rates, over-charge them, is maintained.

* inconsistent with a desire to disperse, rather than concentrate the hard-core poor.

C. Increase in operating subsidies contingent upon a sharing of the financial burden by local governments

Option 5 HUD will increase operating subsidies for those LHAs where state or local government agrees to match the HUD subsidy with a contribution of its own

Additional operating subsidies and modernization funds will be made available if local government matches a specified proportion of the Federal payment. For instance, HUD could offer to channel $1 million of additional funds to an LHA for each $250,000 contributed by state or local governments.

State and local governments should take more responsibility for LHA tenants because tenants are citizens of the community, and tend to be among the more needy. Moreover, local governments have an incentive to provide support because anti-social behavior in LHA projects can "spill-over" into other neighborhoods, through increases in crime, use of hard drugs, etc. Finally, local government is indirectly responsible for the policies and priorities of LHAs through approval of Authorities, appointment of commissioners, etc.

Advantages

* public housing can continue to serve income groups with the same income level.

* localities where public housing is in financial trouble will have to pay a portion of the bill for rescuing public housing in their area, rather than spreading this financial burden among all taxpayers.

* many of the services deemed necessary to improve public housing — such as increased police protection, counseling, etc. — are more appropriately provided at the local level, even though the Federal role has been broadened in recent years to encompass these activities. Hence, some local funding is appropriate.

* HUD would not appear to be "abandoning" public housing, yet HUD funding to make up deficits would not be automatic or limitless.

* state and local governments in much better financial position now than they were a few years ago, and revenue sharing may accelerate this improvement.

* LHAs have incentive to solicit state/local support.

* reduction in Federal responsibility for LHAs; increase in incentives at local level to make public housing work.

Disadvantages

* state and local governments unlikely to want to "bail out" public housing. Because public housing has a poor image in many areas even without local funding, local officials may be quite reluctant to get into a financial obligation.

* if state and local participation is meager, HUD will appear to be abandoning public housing; subsidy level will be frozen unless a matching input by state and local governments is forthcoming.

Option 6 Instead of providing operating subsidies on a once-and-for-all basis, HUD will lend LHAs money to meet their needs, and a portion of the repayment will be cancelled if state or local governments contribute to the operating expenses of LHAs

A specified percentage of the Federal loan could be either deferred or cancelled if a certain proportion of the loan were "matched" by other government units. The portion of the loan that would be re-paid would presumably be "financed" on the part of LHAs by either rent increases justified by greater services provided or by cost savings.

Advantages

* creates incentives for LHA to obtain involvement of state and local governments.

* cost to the Federal government is smaller if HUD loans money than if it gives money.

* HUD does not appear to be walking away completely from public housing.

* prevents HUD from being locked into covering deficits indefinitely.

Disadvantages

* LHAs may simply take the loans and subsequntly default; HUD would have little recourse in this event.

* state and local governments not eager to bail out public housing.

* legal impediments to this arrangement may be considerable.

D. <u>Raise income of LHAs by raising tenant rent levels</u>

There are two ways that the gap between tenant rents and operating costs of LHAs can be narrowed: (1) reduce operating costs through more efficient utilization of rent receipts, and (2) raise tenant rents so that LHA rent receipts more nearly approximate operating costs. This option is addressed to the second of these methods.

Local LHAs have authority to establish income-eligible levels for initial admission and continued occupancy within broad statutory requirements (i.e., generally, tenant income at admission must be at least 20 percent below that needed to purchase safe and sanitary housing within the community). The rent paid by a tenant will differ, however, based on LHA determinations of net annual income, deductions from income (e.g., $300 per dependent), and exemptions from income (e.g., up to $3,300 for full-time students, other than head of household or spouse). Often the deductions and exemptions from tenant income used by an LHA to calculate rent are in excess of those provided in HUD administrative regulations (HM 7465.10). Finally, most LHAs have a maximum rent for a unit, based on its type (e.g., family, elderly, leased), and/or size (e.g., one bedroom). The actual rent a tenant pays is the lowest of the maximum rent, the LHA calculated rent, or the "Brooke Amendment" rent.

The rent maximums used by LHAs theoretically enable some tenants to pay <u>less</u> than the rent ceiling imposed by the Brooke Amendment. This is particularly so when over-income tenants are allowed to stay on in a project because "suitable housing in the private market is not available." It is commonly known that many LHAs do not unduly pressure over-income tenants to leave projects because of the regularity with which they pay rent and because of the "social stability" such tenants lend projects. In fact, one project manager in a very desirable project in Boston took pride in the "generations" of tenants who have remained in the project. Where maximum rent levels prevail, and a policy of leniency exists toward evicting "over-income" tenants, it is conceivable that substantial numbers of relatively high-income tenants pay nominal rents, particularly in the more desirable projects.

In cases where the LHA calculated rent is lower than the "Brooke Amendment" rent, tenants pay the lower rent. Thus, some tenants are paying less than the "statutory ceiling" and maximum rent for units. Thus, in theory, LHAs should be able to raise rent receipts by modifying rent-setting practices.

In practice, however, our calculations indicate that even though some tenants may pay less than 25 percent of adjusted income, public housing tenants as a group now pay about 23 percent of adjusted income for rent. Moreover, our measure of adjusted income does not include medical deductions (due to lack of data), and it is likely that if such deductions were accounted for, the average rent to adjusted income ratio would be close, or equal to 25 percent.

The implication of this finding is that there is very little revenue to be gained by making 25 percent of income a floor as well as a ceiling because most public housing tenants are at or near that level now. Accordingly, in order to raise tenant rent levels to increase LHA income, either the 25 percent ceiling must be relaxed, the deductions and exemptions from gross income reduced, or a floor on rent set in absolute, rather than percentage terms. The following options define this strategy.

Option 7 Raise the contribution rate for all tenants

Advantages

* reduce Federal outlays by lowering LHA operating deficits.

* relatively more favorable to those who utilize a large amount of deductions and exemptions (such as large families), than the option of reducing deductions and exemptions.

* may avoid a course of action in which public housing serves more and more higher income people at the existing contribution rate in order to narrow the receipts - expenditure gap.

Disadvantages

* would buck 25 percent precedent and require legislative changes (modification of Brooke).

* would place a greater hardship on some families who have large expenses for food and other necessities, etc.

* relatively unfavorable to those who do not have many deductions.

* may encourage rent strikes, discontent.

Option 8 Raise the contribution rate for the elderly

Advantages

* reduce Federal outlays, but by less than option 7.

* elderly as a group tend to spend a much higher fraction of income on housing, perhaps because other expenses, such as those associated with raising children, are absent (higher health costs an exception).

Disadvantages

* appears to discriminate against elderly.

* raises less money than option 7 and collects it from those who typically cause the least problems in public housing.

Option 9 Reduce deductions and/or exemptions

Advantages

* reduces Federal outlays for operating subsidies.

* relatively favorable to those who do not use many deductions/ exemptions.

Disadvantages

* probably generate less money than a significant increase in contribution rate (say to 30 percent).

* would raise rents substantially for largest families, who have greatest difficulty finding suitable housing in private sector.

* may have work disincentive if exemption of certain earnings (e.g., students) is lifted.

Option 10 Set absolute floor on rent for each tenant or for tenants in an LHA as a whole

These changes are essentially incorporated in the Widnall Bill (H.R. 8102) which would impose a minimal rental for each unit of public housing equivalent to 40 percent of that portion of the cost of operating and maintaining the project which is attributable to that dwelling unit. The Widnall bill also stipulates that aggregate annual rentals in an LHA equal at least one-fifth of the sum of the gross income of all such households.

The Administration's bill (S. 2507, Title 3, Section 3) provides for the same basic formula as in Widnall and includes the same definition of income. S. 2507 is in committee and is being marked up.

Advantages

* reduce Federal outlays by diminishing LHA operating deficits.

* most families would not experience any rent increase because they are already paying more than the minimum.

* no one would be living in public housing and paying no rent.

Disadvantages

* large rent increses for very poor families and many elderly who would have difficulty finding private housing.

* forces people to pay for deficits who can least afford it; regressive.

* some families would be paying over 25 percent of income, while the majority would not; presents an equity problem.

A preliminary analysis* of the impact of the Widnall definition of income on elderly and AFDC families for the Boston Housing Authority indicates that elderly would experience about a 55-60 percent increase in rent while AFDC families would be faced with a 30-45 percent increase.

If these preliminary findings are at all representative of the impact of a Widnall-type change in procedures, the impact on tenant rent will be quite substantial.

Irrespective of whether operating subsidies are frozen, increased, or placed on a contingency basis, an overall option is to pay the operating subsidy portion of HUD's payment <u>directly to the tenant</u>, while continuing to make debt service payments to the LHAs. In other words, this option transcends the decision about the proper <u>level</u> of operating subsidies; it proposes an alternative <u>delivery mechanism</u>.

Under such a scheme, (details of which are not presented here) public housing tenants would receive a voucher for the value of the operating subsidy for their unit which could be used (redeemed) anywhere, including the private sector. A policy for those on waiting lists and those who would get on waiting lists only to get their voucher and leave would have to be worked out in accordance with principles of equity and feasibility.

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* Performed by the Boston Area Office.

The chief advantage of such a plan is that it would introduce an element of competition between the public and private housing sectors which would be healthy. LHAs would have to compete with low rent private housing to a greater extent than at present for the rental dollars of the poor. Public housing tenants would experience a smaller drop in benefits by moving out of public housing. As a result, projects that are not viable and are offering deplorable conditions should be more likely to fold, as tenants take their voucher into the private sector or to a better project (if they can find a vacancy in a good project).

Some LHAs would suffer in the short-run from this scheme, and to the extent that some projects fold as a result of it, some tenants who do not wish to leave those projects will be involuntarily dislocated.

VI. SOME SUGGESTIONS FOR FURTHER WORK

The following suggestions for further work in this area should be viewed as a partial, tentative list of worthwhile questions the answers to which would shed further light on the problems of public housing.

1. What is the independent effect of various demographic, economic, and social factors on maintenance expenditures?

2. What has been the impact of the modernization program on public housing?

3. What are the characteristics that distinguish movers, non-movers, and applicants? What factors cause people to move? Pushed out? Pulled out?

4. What factors underly variations in vacancy and turnover rates by region, city, projects, and types of building?

5. How has the market value and condition of the public housing and the private housing stock in similar neighborhoods changed over time?

6. What factors underly changing trends in operating expenditures and receipts within LHAs?

7. Can criteria be developed to determine when a project has reached a "shut down" point where further subsidy expenditures will not improve the quality of life?

8. What impact do "external" neighborhood conditions have on the viability of public housing projects?

9. Do the amount and quality of social services provided by State and local governments to public and private housing residents differ? What is the impact of improved social and protective services on the viability of public housing projects?

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