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U.S. Department of Housing and Urban Development

HUD Perspective on Public Housing Modernization

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March 1988

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HUD is committed to the restoration of the nation's public housing stock to decent, safe and sanitary condition so that it can serve the needs of low-income households as effectively in the future as it has in the past. This is an essential part of the Reagan Administration's goal of housing as many low-income families as possible with available resources

INTRODUCTION

Based on data developed by Abt Associates under contract to HUD, over half of public housing households now live in projects that need moderate to substantial rehabilitation just to meet HUD's mandatory standards for modernization. This is despite the fact that the Federal Government had already allocated over \$5 billion to public housing modernization between 1980 and the date of the Abt inspections in 1985.

The Abt data show that 90 to 95 percent of the existing inventory of public housing units can be brought into condition to provide decent basic housing for low-income families at a manageable cost. Based on the Abt data, the backlog of mandatory modernization need at public housing projects across the nation is from \$7.5 to \$9.2 billion.* In addition to funding needed to address this backlog, public housing agencies will need funds to handle depreciation of the housing stock as it occurs. The mandatory needs estimate overstates the current backlog of mandatory modernization need because of \$3.9 billion that has been appropriated and allocated for public housing modernization since 1985. While additional needs have accrued since 1985, it is reasonable to as-

* All dollar figures in this paper are in 1986 dollars

sume that the current backlog needs component is lower than \$7.5 to \$9.2 billion.

At least 59 percent of the public housing stock has reached such a condition that it cannot be effectively or efficiently rehabilitated, and other units now expected to be modernized may turn out to have problems that make them non-viable. Some of this stock is already slated by PHAs for disposition or demolition. A clear policy for handling the impact of this loss of housing stock is required.

In order to meet the needs identified in the Abt survey, HUD is proposing that the Federal Government and State and local governments share the responsibility for funding the work necessary to permit public housing projects to be upgraded to the HUD mandatory modernization standards and to maintain that level over time. Without significant State and local investment, and a strong local sense of vested interest in the continued viability of public housing, unaided Federal efforts to preserve public housing are likely to prove unavailing. HUD is also proposing to house any families dislocated by modernization decisions through a flexible policy using the most efficient means in local circumstances.

BACKLOG MODERNIZATION ESTIMATES

Abt Associates, under contract to HUD, has recently completed a study of the backlog of modernization needs of public housing, and provided cost estimates of modernization work needed or desired now in the public housing stock.

HUD does not believe that all work identified in the Abt survey needs to be done in order to provide decent, safe and sanitary housing for public housing residents. However, it is important to place the information reported by Abt in context in order to understand how the Abt survey data relate to the HUD policy proposals presented later in this paper.

Therefore, HUD has derived from the Abt data estimates of the funding needed to pay for the modernization work identified by Abt. (The Appendix to this paper provides more detail on how these estimates were derived from the estimates in the Abt report.) On the basis of the Abt data, categorized in accordance with how modernization is actually funded, HUD reports that:

Mandatory Modernization Need can be estimated at \$7.5 to \$9.2 billion. This is the unfunded backlog of modernization work

needed to bring all public housing projects up to HUD's mandatory standards—work necessary to preserve health and safety, ensure building integrity, meet local code requirements, and meet Federal standards for accessibility for the handicapped and lead paint abatement. The major HUD adjustments to the Abt estimates for this work are increases to cover administrative expenses, decreases to factor in unspent modernization funds, and elimination of funding estimates for units not expected to be modernized, because they will not be viable in the long term, or their modernization costs are unreasonable.

Project-Specific Adds range from \$2.9 to \$5.9 billion. These represent additional work beyond the mandatory standards that, under the guidelines of the current modernization program, would be permitted at particular projects where a PHA demonstrated to HUD's satisfaction that the work was necessary to improve the quality of the project or to enhance its long-term viability. This estimate assumes that, under the current Comprehensive Improvement Assistance Program (CIAP) approach, HUD reviewers would concur with the inspectors' opinions. In their review of Modernization Applications, HUD reviewers would approve items which the Abt inspectors rated "1-definitely appropriate" (\$2.9 billion) and might approve items rated "2-probably appropriate" (\$3.0 billion), but would not approve items identified by PHAs that were not considered appropriate by the inspectors (\$5.7 billion). The Abt estimates for high-rated project-specific adds have been adjusted to include administrative costs, and exclude unspent modernization funds allocated for this work to arrive at the HUD estimate.

Project Redesign is estimated at \$2.1 billion. Projects that need redesign require substantial structural changes to ensure their long-term viability. Again, the HUD estimate adds administrative costs to the Abt estimate, and deducts pipeline funds, modernization funds unspent at the time of the inspections.

Energy Conservation Improvements are estimated at \$564 million. This is a lower amount than the Abt estimate, even though the HUD estimate adds administrative costs to the Abt estimate, because at the time of the Abt survey PHAs had been provided over \$500 million in modernization funds for energy improvements which they had not yet spent.

Other Adds, estimated by Abt at \$5.7 billion, should not be considered part of modernization need, because the PHA's request for work was not supported by an inspector's independent review of the need for the work, the requested work was explicitly prohibited by HUD or the work item was not in the Adds catalog.

Energy Conservation Adds, estimated by Abt at \$1.4 billion, should not be considered part of the total of modernization needs because this type of work was included in the Energy Survey, and is included in the estimate for energy conservation improvements where found to be cost-effective.

The major estimates developed by Abt Associates, in somewhat broader categories, are: 1) \$9.307 billion for Fix, that is, repair or replacement of existing systems; 2) \$12.946 billion for Adds, that is, additions and upgrades at specific public housing projects; 3) \$2.063 billion for redesign work at individual projects; and 4) \$939 million for Energy Conservation Improvements. The total cost of all work identified by Abt is clearly beyond the capacity of government to fund in any reasonable period of time. Moreover, much of this work is not required to assure decent, safe and sanitary housing, or would be inappropriate given less expensive housing alternatives.

ACCRUAL MODERNIZATION NEEDS

In addition to the cost of the repairs, replacements and additions discussed above, public housing projects will continue to age and accrue additional needs. A second phase of the modernization research program, to be completed in the spring of 1988, is analyzing inspection data to determine the rate at which this accrual takes place. It is possible that accrual costs can be minimized by creative use of programs and policies involving tenants more actively in the operation of public housing, and giving residents more of a vested interest in the continued maintenance of public housing units, policies tested at some innovative PHAs such as the Oasis project, or tenant management.

PROPOSED POLICY

HUD and Congress have agreed on a new approach for funding the modernization needs of public housing through a comprehensive grant program under which PHAs will receive formula-based funding for the backlog of repair needs and the future accrual of repair needs. The backlog of work required to meet HUD's mandatory modernization standards is estimated to be \$7.5 to \$9.2 billion. Again, this estimate does not reflect the additional \$3.9 billion appropriated and allocated for modernization activities since 1985, or the accrual of additional modernization needs since that date.

The size of this estimate and the fact that the majority of public housing households are living in projects that need moderate to substantial rehabilitation just to meet HUD's mandatory modernization standards have led HUD to the following proposals for funding and implementing the comprehensive grant program:

- The Federal Government will retain primary responsibility, and work with State and local governments, the PHAs and the private sector to secure sufficient funding to overcome the backlog of modernization needs to meet HUD's mandatory modernization standards, to assure basic decent, safe and sanitary housing for public housing tenants
- The Federal Government will also provide leadership, in cooperation with State and local governments and PHA's, to fund accrual needs, to avoid the future development of a backlog of repairs needed to meet the mandatory modernization standards.
- PHAs will seek additional funding from their State or local government to the extent they need it for additional project specific work and project redesign.
- Funding for Energy Conservation Improvements will not be included in the backlog of mandatory modernization need. These improvements will be funded, as resources permit, on a basis that more directly relates to potential utility cost savings at particular PHAs and projects
- Where the clearly appropriate decision for particular units is disposal or demolition, and this has an actual impact on the housing supply for low-income families in a PHA's jurisdiction, HUD will provide housing to the affected families in the most cost-efficient manner, whether through rehabilitation of other units, use of vouchers or Section 8 certificates or other programs.

A fuller discussion of this proposed policy follows.

FEDERAL FUNDING FOR THE BACKLOG AND ACCRUAL OF MANDATORY MODERNIZATION NEEDS

Under the proposed policy, the Federal Government will retain primary responsibility for funding that modernization work which is required both now and in the future to maintain the public housing stock at a level which provides basic decent hous-

ing for its residents, recognizing that this is not just a Federal, but also a State and local interest, requiring participation by all levels of government. The Federal Government will not allocate funds for work beyond this level of modernization need.

This policy represents a basic change from the philosophy underlying the current modernization program, CIAP. Under CIAP, the Federal Government's focus has been to protect and preserve the public housing stock, and to make whatever replacements, additions and upgrades are necessary to ensure that particular public housing projects are viable and marketable over the long-term. Thus, CIAP is based on a policy focused on housing projects

With the size of the modernization bill for the continuation of this policy now apparent from the Abt data, we must recognize that the current project-based approach of the CIAP program is not workable. Instead, the Federal Government must now focus the Federal modernization program on the basic needs of the tenants of public housing, and provide an adequate level of funding to all PHAs to assure that the HUD mandatory modernization standards can be met in all public housing projects across the country within a reasonable period of time and sustained thereafter. Only by limiting Federal funding to the backlog and accrual of mandatory work items can we expect to upgrade the public housing stock that is not now providing decent, safe and sanitary housing to its residents to decent condition within the foreseeable future and maintain it over time.

It must also be recognized, that the preservation and maintenance of the public housing stock is not solely a Federal responsibility. Public Housing is owned not by the Federal Government but by independent authorities chartered by States and organized at the local level. Without significant State and local investment, including effective PHA management and maintenance, and without a strong local sense of vested interest in the continued viability of public housing, unaided Federal efforts to preserve public housing are likely to prove unavailing. A number of recent demonstrations in public housing have provided evidence that when all levels of government, as well as the private sector and the residents of public housing, are pulling together, investments in rehabilitation can be preserved.

Budgetary constraints in the Federal Government make it impossible to fully fund modernization from only that one level of government. Furthermore, it is not desirable to do so, because it reinforces a sense of State and local distance from the fate of public housing. In looking to fund modernization needs, the Administration and Congress should consider the need to involve all levels of government in the investment, and to involve residents

and PHA management in the preservation and maintenance of the rehabilitated stock.

PROJECT-SPECIFIC ADDITIONS AND PROJECT REDESIGN

The Abt study, at the request of interest groups representing PHAs, included a component in which PHAs could ask for additions and upgrades to their projects. The questionnaire sent to PHAs for this "Adds" component of the study identified 150 different possible improvements, and 15 possible reasons why these improvements might be wanted by the PHA for the particular project. PHA requested "Adds" ranged from "add heavy duty locks" to improve security, to "add washer/dryer hookups" for tenant convenience. Some of this work, such as removing asbestos, is necessary to meet the modernization program's mandatory standards for achieving health, safety, and building integrity and is included in the HUD estimate of the backlog of mandatory modernization need. However, the vast majority of this additional work desired by PHAs is beyond the HUD mandatory standards and is designed to improve project quality and improve the marketability of the public housing projects. Similarly, project redesign work, in which architectural reconfiguration of projects is requested by PHAs, is not essential for the health and safety of tenants, but is intended to improve their marketability so that they can effectively compete with other assisted and unassisted rental housing available in the local housing market.

As noted above, under the existing modernization program, created in 1980, the Federal Government assumes responsibility for all investment decisions with respect to public housing. Additions and upgrades, and redesign where necessary, are funded at specific public housing projects where they appear to be a sensible investment in the housing stock. However, in light of the size of the potential bill for public housing modernization, it is no longer possible for the Federal Government to fund all work at a public housing project, both work that is necessary and work that is desirable but not essential. At this time of budgetary stringency, funding discretionary work at one PHA will mean that essential work at another PHA is not funded, and tenants at the second PHA will be denied safe and sanitary housing.

PHAs should now be expected to make their case for these project specific additions and project redesign for their public housing projects to State and local governments and the private sector. These governments are in a better position than the Federal Government to determine whether the housing provided by a par-

particular public housing project should receive capital investments to improve project quality beyond those investments necessary for tenant health and safety. This approach will require public housing to compete with other potential housing investments which a State or local government might make, and can help to introduce some market reality to the public housing program, which the current direct Federal funding relationship renders impossible.

Since the CIAP program was created in 1980, State and local government fiscal capacity has improved, and States and cities have taken on more responsibility for housing within their jurisdictions. Thirty-four States now have State housing programs, and many cities also fund housing activities, using both their own tax revenues and Federal sources of funds such as the Community Development Block Grant program. Some communities, such as New York City and Baltimore, are already providing funding for public housing. It is now time for other cities to make similar decisions about the value of the public housing program to their community, and provide direct funding where they believe discretionary improvements to public housing are warranted in their particular circumstances. Many cities and States will undoubtedly find, as the Federal Government has, that it is more efficient to rehabilitate and maintain the existing stock of public housing than to attempt to build new projects.

ENERGY CONSERVATION IMPROVEMENTS

Energy Conservation Opportunities (ECOs), estimated at \$572 million, are excluded from the backlog estimate because they are of a fundamentally different nature from other modernization actions. ECOs are different in that they are desirable from a cost and efficiency perspective rather than because they measurably contribute to the health, safety or quality of life of tenants. For example, HUD's mandatory standards require that heating and cooling systems be adequate to maintain a specified temperature range in each dwelling unit, while ECOs relate to additional measures that would decrease the cost of maintaining that range. Unlike other modernization funding categories, ECOs offer clearly identifiable cost-benefit tradeoffs. It follows that decisions on energy improvements should be viewed from a financial perspective, and if funded, should be funded on a basis that directly relates to potential energy cost savings at particular PHAs and projects.

PROJECTS THAT SHOULD NOT BE MODERNIZED

Most public housing, 90 to 95 percent, is now, or will be capable after modernization of, providing decent housing service to its residents at reasonable cost to taxpayers. Conversely, units in projects that are not economically or socially viable probably represent less than 10 percent of the total public housing stock. Most of the latter are large, older, family projects in central cities. While some family projects of this nature provide good housing for the people who live there, others have fundamental flaws in their design and location, including extremely high densities and isolation from the services and supporting networks of the surrounding community.

For these projects in particular, the focus of policy should be on the interests of the tenants, not on the projects. The Federal Government should provide tenant-based assistance, such as housing vouchers or Section 8 certificates, to relocate the families who, while fortunate enough to be receiving housing assistance, are receiving it in inhumane circumstances of severe deterioration, high concentration, isolation or danger. Implementing this policy would require a change in the current statutory provisions governing the demolition and disposition of public housing.

Based on a survey of HUD field staff and an analysis of the Abt modernization estimates and HUD program data, 73,000 public housing units are either already planned for retirement by their PHAs, have very high vacancies, or have costs, including their modernization costs just to meet mandatory standards without any upgrades or redesigns that exceed either the cost of total physical replacement or the cost of a housing voucher in locations with an ample supply of rental units.

The potential cost of modernizing these 73,000 high-cost or problem units is \$1.9 billion, which, when deducted from the HUD estimate of \$11.1 billion for the modernization backlog, provides an estimate of the cost of meeting the backlog of mandatory modernization need of \$9.2 billion. (See appendix to this paper for further discussion of estimates.) The cost of providing vouchers to the residents of these units, approximately \$284 million, would appear elsewhere in the HUD budget.

However, this estimate of \$9.2 billion may not take sufficient account of those units that should not be modernized because of other physical and social problems. There are additional public housing units in projects that may not have very high vacancies or may not exceed a cost threshold if only their mandatory backlog

needs are taken into account, but do not provide humane environments for their residents because they concentrate the very poor in isolation from the rest of the community, are located in areas without access to transportation and services, or have basic design flaws. Under the viability test used in the public housing modernization program, when a project's modernization request exceeds 40 percent of prototype costs or when the project is more than 15 percent vacant, a thoroughgoing review of its social, physical, and locational viability must be undertaken before modernization funding can be approved. At least 95,000 units in troubled PHAs, in addition to the 73,000 units already described, would trigger viability reviews and some unknown number would not be modernized but, instead, be scheduled for retirement and their tenants relocated in private rental housing subsidized with Federal rental assistance. If all of these units failed the viability test, the estimate of meeting the backlog of modernization need would fall to \$7.5 billion.

PRIVATIZATION

Faster progress in meeting modernization needs can be achieved through the sale of a small number of public housing projects that occupy locations having unusual market value. Once the housing needs of current residents are met, proceeds from the sale of such projects could be used to retire debt previously incurred, to add to the modernization of other public housing, or otherwise to address the low-income housing needs of the community. In other cases, projects can be sold to public housing residents, thereby extending the benefits of homeownership to this group.

Resident management of public housing can also result in lowering the costs of meeting both the backlog and accrual of modernization needs over the long term. The active involvement of tenants in decisions affecting their living circumstances can increase tenant morale, community spirit and self-sufficiency and lead tenants to take pride in their dwellings, avoiding costs associated with neglect and vandalism. Further, the community spirit engendered by the cooperative efforts of the tenants to run their housing project under the auspices of a Resident Management Corporation could well lead to tenants contributing their labor to undertake some maintenance work, such as interior painting of the dwelling units, which otherwise might be a charge on the project's modernization budget.

A comprehensive approach to the future modernization of public housing should consider these and other opportunities to more ef-

fectively manage that stock and more efficiently use the limited public resources available for its preservation and improvement

NEED FOR ADDITIONAL REFORMS

The extensive unmet need for modernization work identified in the Abt study, despite the substantial allocation of Federal dollars, may be symptomatic not only of management problems with the current modernization program, but also of fundamental flaws in the basic structure of the public housing program. The Administration and Congress will need to look beyond the recently legislated reform of the modernization program, the Comprehensive Grant, to examine the extent to which additional reforms are needed in order to assure that public housing can serve its intended purpose of providing safe, sanitary and decent housing.

HUD Adjustments to the Abt Study¹
(1986 dollars, in millions)

| Type of Modernization | Abt Study | HUD Revised | Explanation |
|--|--------------|----------------|---------------------------------------|
| MANDATORY MODERNIZATION STANDARDS | | | |
| 1. Public Housing Fix | 9,307 | 9,307 | |
| 2. Indian Rental Fix | 161 | 161 | |
| 3. Indian Homeowner Fix | 223 | 89 | Only part of cost eligible |
| 4. Mandatory Adds | 881 | 881 | |
| 5. Indian Rental Mand. Adds | 49 | 49 | |
| 6. Handicapped retrofit | 232 | 232 | |
| 7. Handicapped Adds | 55 | 27 | Overlap of Handicap retrofit estimate |
| 8. Lead Paint Abatement | 446 | 446 | |
| 9. Mandatory portion of "Other Adds" | NA | 42 | HUD estimate of allocation |
| 10. Turnkey 3 and Sec. 23 | | 230 | Not in Abt sample |
| 11. Admin. Costs @ 9.8% ² | | 1,122 | Needed to reflect full costs |
| 12. Deduct pipeline funds ³ | | (1,509) | Already available as of inspections |
| 13. Deduct 73,500 high-cost or problem units ⁴ | | (1,862) | Outside scope of Abt study |
| 14. Total, No More Than ⁵ | | 9,215 | |
| 15. [Deduct up to 95,300 units triggering a viability test] ⁶ | | [Up to 1,759] | Outside scope of Abt study |
| 16. Total, No Less Than ⁵ | | 7,456 | |

1 The Abt study estimated the labor and material costs associated with making repairs or upgrades at public housing projects at the time of the field inspections during the late summer of 1985. Abt was not expected to estimate administrative costs associated with doing the work, nor was it expected to take into account modernization funding which had already been provided to PHAs but not yet spent as of the date of the inspection. Therefore, in order to get a true picture of the full cost of the backlog of outstanding modernization work at public housing projects, it is necessary to adjust the Abt estimates.

- 2 Based on actual PHA reported expenses in the CIAP program from FY 1982 through FY 1985, these administrative costs, fees (such as for architects), and relocation costs add 9.8 percent to the cost of the physical improvements.
- 3 As of September 30, 1985, when Abt inspectors were still in the field, the pipeline funds totalled \$2,647 million. On the basis of reporting from PHAs for FY 1982 through FY 1985, these pipeline funds were allocated to the various categories of modernization actions in the Abt report, and costs were reduced by the appropriate pipeline amount.
- 4 These are itemized into the following, non-overlapping categories:
 - A The Abt cost estimates were reduced to eliminate modernization costs associated with units expected to be demolished or disposed of in the next 6 years. A poll of HUD Field Offices showed that staff who work most closely with PHAs expect about 21,500 units to be demolished over that time period. The mandatory modernization need for these projects is estimated at about \$18,000 per dwelling unit, for a total cost of \$390 million to modernize these projects. If about \$1,000 per unit is assumed as the cost of demolition, the net cost avoided by not modernizing units leaving the stock is \$370 million.
 - B About 20,200 units are in projects whose cost of modernization exceeds cost containment standards. These units do *not* overlap with those in A.
 - C About 15,900 units are in projects over 30 percent vacant. These units do *not* overlap with those in A and B.
 - D About 15,900 units are in projects whose annualized modernization cost plus operating cost would exceed 100 percent of the voucher subsidy cost plus administrative fee for housing equivalent households. These units do *not* overlap with those in A, B, and C.
- 5 These figures do not take into account \$3.9 billion appropriated and allocated for public housing modernization since 1985. They also do not take into account the need for modernization that has accrued since 1985. However, it can be assumed that some portion of this amount will help decrease estimated modernization backlog needs.
- 6 About 95,300 units in projects that would trigger a thorough review at application under a Comprehensive Grant system that would continue detailed oversight of troubled PHAs and apply current viability guidelines to them. The 85,400 units were in troubled PHAs, and their projects had a vacancy rate of at least 15 percent or a ratio of modernization cost to cost containment standards of at least 40 percent. These units do not overlap with those in ⁴A to ⁴D. Until actual applications and reviews are made, the actual number of units dropped and their modernization cost cannot be known.

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-0000
Official Business

HUD-1142-PDR
March 1988

