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PRESERVING SAFE, HIGH QUALITY PUBLIC HOUSING SHOULD BE A PRIORITY OF FEDERAL HOUSING POLICY

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This report, based on significant new research, examines the state of public housing in the United States today and discusses federal policy changes that have greatly improved public housing over the past decade, as well as the deteriorating funding situation that is undermining this progress. It then outlines several policy recommendations that could further strengthen public housing and preserve most developments for the future.

Executive Summary

Located in more than 3,500 communities across the country, public housing is a vital national resource that assists 2.3 million vulnerable Americans. Nearly two-thirds of all public housing households include an elderly person or an individual with a disability; without housing assistance, many could be forced to move to an institution. As the U.S. population continues to age in coming years, affordable housing that is suitable for seniors will become even more important. In addition, public housing provides crucial stability for more than 400,000 low-income families with children, the majority of them working families.

The public housing stock — and the people who live in it — have changed in significant ways over the past decade. For example:

- Center research finds that **most of the projects that generated negative stereotypes of public housing in the past have been transformed or demolished.** Since 1995, about 200,000 public housing units, including the great majority of large “high rises,” have been torn down. Today, only 48,000 units are in family projects with more than 500 units (this figure

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State Appendix:

<http://www.cbpp.org/9-18-08hous-stateapp.htm>

Technical Appendix:

<http://www.cbpp.org/9-18-08hous-app.htm>

PHA Appendix:

<http://www.cbpp.org/10-7-08hous-agencies-app.pdf>

omits New York City, where high-rise housing makes up an unusually large share of the housing stock occupied by families at all income levels).

- Center research also finds that **a much smaller share of public housing units are located in very poor neighborhoods and a larger share of families living in public housing are working.** Over the last decade, the share of family units in neighborhoods where at least two in every five residents are poor has fallen by 40 percent. In fact, only 86,000 general-occupancy units — *less than 11 percent of all public housing in the nation outside New York City* — are in large projects in high-poverty neighborhoods. Similarly, since 1997 the share of public housing families with children that rely on welfare as their primary source of income has declined from 35 percent to 19 percent, and a larger share of families are working.
- **The vast majority of public housing developments are now in good physical condition.** Ninety percent of developments meet or exceed housing quality standards, although most developments are more than 30 years old, and many will need rehabilitation to continue to provide decent quality homes.

Sound changes in federal policy contributed to all of these gains. But in the past several years the federal government has failed to provide the state and local housing agencies that own and operate public housing with sufficient funds to maintain the units and make needed capital improvements. The federal government has significantly underfunded agencies' operating subsidies for six consecutive years. In addition, agencies' annual funding for capital expenses such as renovation and replacing aging appliances and systems is too low to meet the new needs that accumulate each year, let alone address the estimated \$22 billion backlog they face in unmet needs. (Some units may require replacement rather than renovation. If 100,000 of the nearly 1.2 million units are demolished and replaced, the cost of bringing public housing up-to-date would be about \$32 billion.)

These large and persistent funding shortfalls threaten to undermine public housing's recent progress and also have contributed to the loss of thousands of public housing units, forced harmful cuts in security and other services, and delayed needed repairs.

Some policymakers and housing experts favor replacing public housing with vouchers that families would use to help pay the cost of renting housing in the private market. The voucher program is a highly successful form of housing assistance, and vouchers can expand the housing choices available to needy families. But indiscriminately driving housing agencies to replace public housing units with vouchers would be unwise, for several reasons.

- **Public housing serves certain demographic groups better than vouchers can.** As noted, most households in public housing include an elderly person or an individual with a disability, two groups that often have difficulty finding units to rent with vouchers. Many public housing developments, in contrast, are configured to accommodate residents' mobility impairments and other needs.
- **Public housing serves certain geographic areas better than vouchers can,** such as those where the stock of moderately priced rental housing is limited. Nearly a third of family units are in lower poverty areas where vouchers may be difficult to use and construction of new affordable housing would likely face local hurdles.

- **Shifting to vouchers could actually cost the federal government *more* than providing sustainable funding to maintain public housing developments.** This is because the federal government and local agencies have already made large investments in many of these developments. We estimate that on average rehabilitating currently available public housing units and funding their continuing operation for 30 years would cost eight percent less than replacing the units with vouchers. Federal costs would almost certainly be even greater, because agencies would be most likely to shift to vouchers in cases where the voucher subsidies they would receive are relatively large.

Accordingly, the federal government should adopt a comprehensive plan for public housing that includes four elements:

1. The federal government should reverse its recent policy of underfunding public housing's operating costs and **provide housing agencies with the full amount of funding they need for adequate upkeep and operation of developments.**
2. The federal government should **provide added resources to rehabilitate developments and establish a new process to allocate those resources efficiently.** Direct grants should play a key role in modernizing public housing, but the federal government should also create new tools to help agencies leverage loans and other private investment.
3. **Housing agencies should be permitted to replace certain developments with "project-based" vouchers,** which make specific units in privately or publicly owned housing developments affordable to low-income families. This strategy should be targeted at family developments in areas with high poverty rates and other problems and those with unusually high capital needs. Replacing public housing funding with vouchers could make it easier for agencies to borrow the capital funds needed for repairs and to reduce the concentration of poor families.
4. While most of the large family developments in low-opportunity neighborhoods have been eliminated, some remain. **Housing agencies should be required to transform large, low-opportunity developments into mixed-income developments or to provide vouchers enabling residents to move to better housing.** (Mixed income developments would include residents who do not receive housing assistance.)

I. Public Housing Meets Critical Needs

The nation's nearly 1.2 million units of public housing represent a vital national resource. The 14,000 public housing developments, located in more than 3,500 communities throughout the United States (and its territories), provide affordable homes to 2.3 million Americans, including some of our most vulnerable seniors, people with disabilities, and families with children.² (The Appendix provides data on the public housing units and residents in each state.)

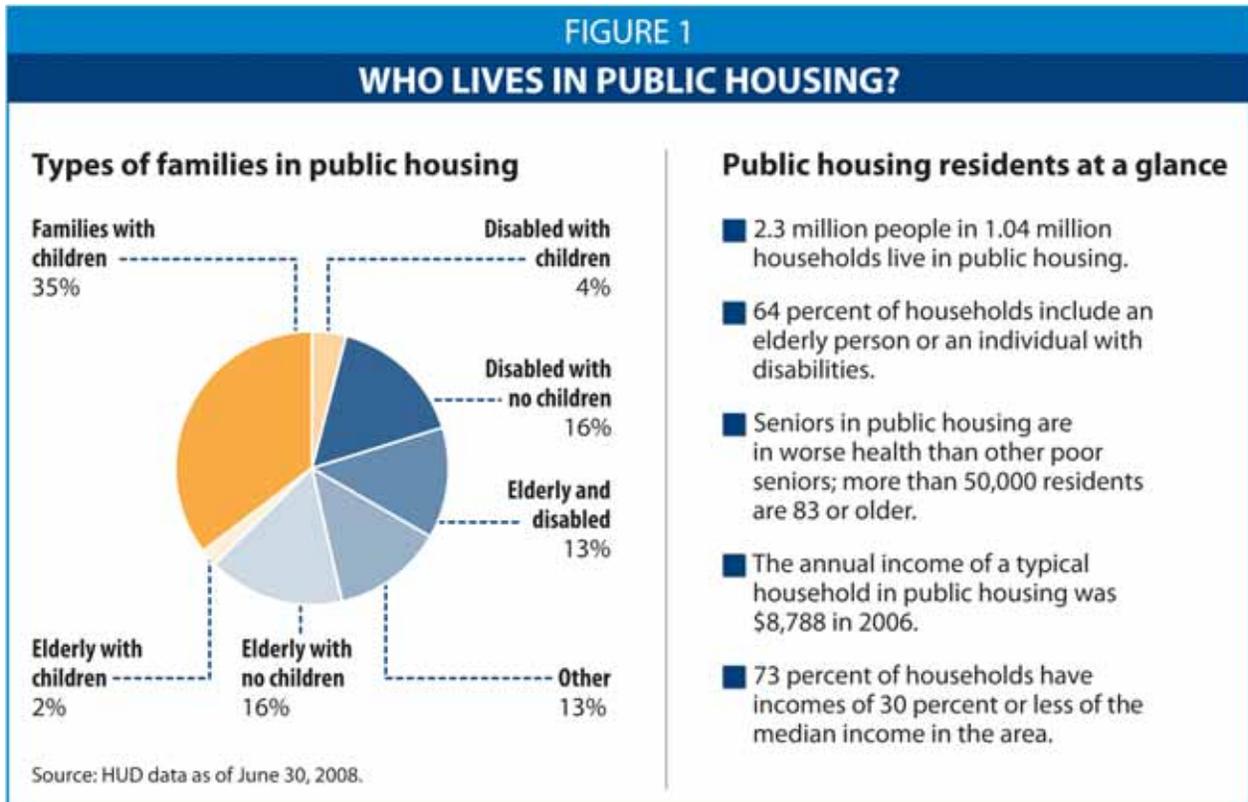
Basic Facts About Public Housing

- **Who owns and administers public housing?** Public housing units are owned and typically managed by more than 3,100 housing agencies. Most of these are semi-independent housing authorities, but some are agencies of local or state governments. Most agencies are small: half own fewer than 100 public housing units; 88 percent own 500 or fewer units. The Department of Housing and Urban Development (HUD) oversees public housing at the federal level.
- **Is public housing the same as “Section 8”?** Public housing is a separate program from the Section 8 housing voucher program (which helps tenants rent units of their choice in the private market), although 47 percent of the agencies that administer public housing also run voucher programs. Public housing is also distinct from “project-based” Section 8 and other federal programs that directly subsidize private affordable housing owners.
- **How many public housing units are there?** There are 1.16 million units, located in close to 14,000 developments in every state and several territories. About 1.04 million units are currently occupied. The remainder are undergoing renovation or are vacant for other reasons.
- **When was public housing created?** The public housing program began in 1937. Nearly all of today’s developments had been built before 1985. No funds have been provided to build new public housing since the mid-1990s (except to replace other public housing that was demolished or otherwise removed from the program).
- **Who is eligible to live in public housing?** A family must be “low-income” — meaning that its income may not exceed 80 percent of the local median income — in order to move into public housing. At least 40 percent of the new families an agency admits each year must be “extremely low-income,” with incomes at or below 30 percent of the local median. But on average agencies exceed this 40 percent requirement by a wide margin.
- **How much rent do tenants pay?** Most tenants pay 30 percent of their income (after certain deductions are taken out) for rent and utilities. Tenants also have the option to pay “flat rents” that are set based on local market rents regardless of the tenant’s income.
- **How is public housing funded?** The federal government provides three funding streams for public housing: (1) the Public Housing Operating Fund, which makes up the difference between the rent revenues tenants pay and operating expenses such as utilities, security, and maintenance; (2) the Public Housing Capital Fund, which funds renovation of developments and replacement of appliances and systems; and (3) HOPE VI, a competitive grant program that supports revitalization of the most distressed developments. In 2008, Congress provided \$6.7 billion from these three sources. In addition, some agencies receive supplemental resources from states or localities or from other federal funding streams like the Low-Income Housing Tax Credit.

For example, 350,000 seniors live in public housing, and nearly two-thirds (64 percent) of all public housing households include an elderly person or an individual with a disability.³ Some 41 percent of public housing households have minor children.⁴

Most public housing residents are extremely poor; the typical (or median) household in public housing had annual income of just \$8,788 in 2006. Families with children, which are usually larger and more likely to have earned income, had only slightly higher incomes, with a median of \$9,216.

Some 73 percent of the households living in public housing have incomes of 30 percent or less of the area median income for their household size.⁵ These families — and most other public housing residents — cannot afford private market rents without diverting resources away from other necessities.



Growing Unmet Need for Affordable Housing

Because of funding limitations, federal housing assistance programs serve only one out of four low-income families eligible for assistance.⁶ More than 12 million low-income households receive no federal housing assistance and face housing problems that public housing (or other housing assistance) would alleviate.⁷

Even before the current foreclosure crisis, which has caused a substantial number of renters as well as homeowners to lose their homes, the number of households experiencing housing problems was increasing. From 2000 to 2006, the number of low-income renter households whose housing costs exceed 50 percent of their income (a group HUD categorizes as having “severe housing cost burdens”) increased by 2 million, or 34 percent.⁸

Given the aging of the population, affordable housing that is suitable for seniors is particularly needed. The United States will need more than 700,000 *additional* rent-assisted units by 2020 just to bring unmet housing needs among seniors back down to their 1999 level, according to one estimate.⁹ Moreover, many elderly people are physically frail or have disabilities. Unless the number of housing units accessible to people with disabilities grows substantially, increased elderly demand

will compete with the needs of non-elderly people with disabilities, including veterans of recent wars. If the nation fails to preserve existing public housing units, these shortages will grow larger.

II. Public Housing Has Improved Dramatically in Past 15 Years

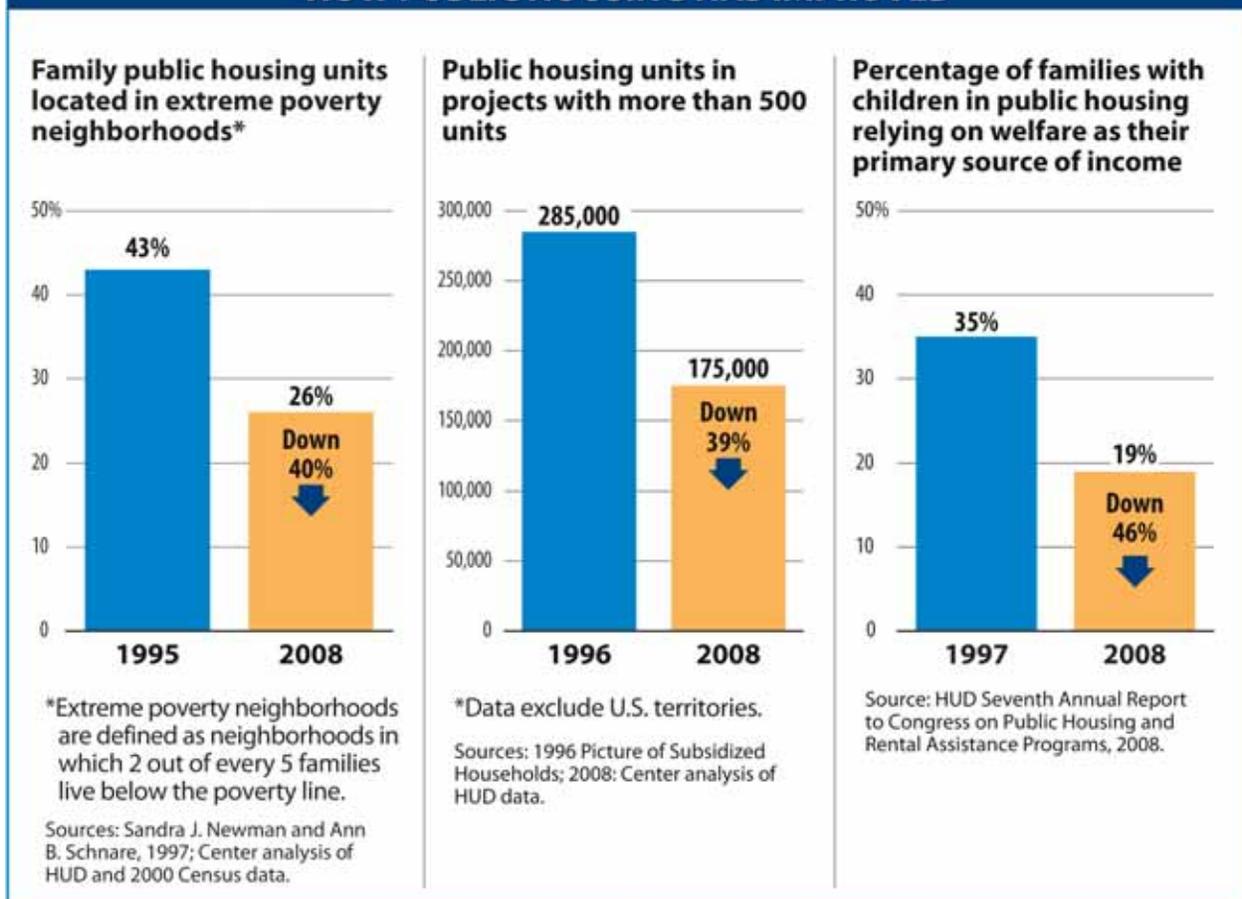
Many people think of public housing as high-rise warehouses of poor families or bleak expanses of barracks-style low-rises, where no one with any options would choose to live. In fact, most public housing never conformed to this stereotype. For decades, public housing has provided decent, affordable homes to many low-income families with children, seniors, and people with disabilities.

To be sure, hundreds of thousands of public housing units had become dilapidated by the early 1990s, and the prevalence of violence and isolation from commercial activities made living conditions problematic in many projects. Since then, however, the public housing stock — and the people who live in it — have changed in significant ways:

- A decade ago, 43 percent of family units (that is, units not located in buildings set aside for the elderly or people with disabilities) were located in what are commonly referred to as “extreme poverty” neighborhoods, where at least two in every five residents are poor. Today, the percentage of family units located in such neighborhoods has fallen to 26 percent.¹⁰
- Most of the biggest developments, including the great majority of large high rises, have been demolished. Outside New York City, only 48,000 units today are in family projects that have more than 500 units. (In New York City, high-rise housing makes up an unusually large share of the housing stock occupied by families at all income levels.¹¹)
- More than 85 percent of public housing units meet or exceed HUD’s physical condition standards¹² and at least 40 percent of developments are considered physically excellent.¹³ Comparable data are not available from the 1990s, but since 1995, about 200,000 public housing units — most of them severely deteriorated or obsolete — have been demolished.¹⁴
- Only 19 percent of public housing households with children rely on welfare as their primary source of income. By comparison, in 1997 welfare was the main source of income for 35 percent of families with children in public housing.¹⁵

FIGURE 2

HOW PUBLIC HOUSING HAS IMPROVED



Improvements Partly Reflect Federal Policy Changes

In some cases, these changes reflect larger social trends. For example, one reason that fewer developments are located in areas with extreme poverty is that the number of extreme-poverty neighborhoods has fallen.¹⁶ Similarly, rates of welfare receipt have fallen not only among public housing residents but among low-income families generally. But the above improvements also resulted from major policy decisions that have dismantled many of the developments that fueled the worst stereotypes of public housing and have improved the developments that remained.

Demolishing Badly Deteriorated Units

Beginning in 1995, Congress allowed housing agencies to demolish public housing without replacing the units on a one-for-one basis with new public housing.¹⁷ Congress had previously required full replacement to prevent the loss of badly needed affordable units, but the lack of funds to construct new units effectively prevented demolition even of very deteriorated developments.

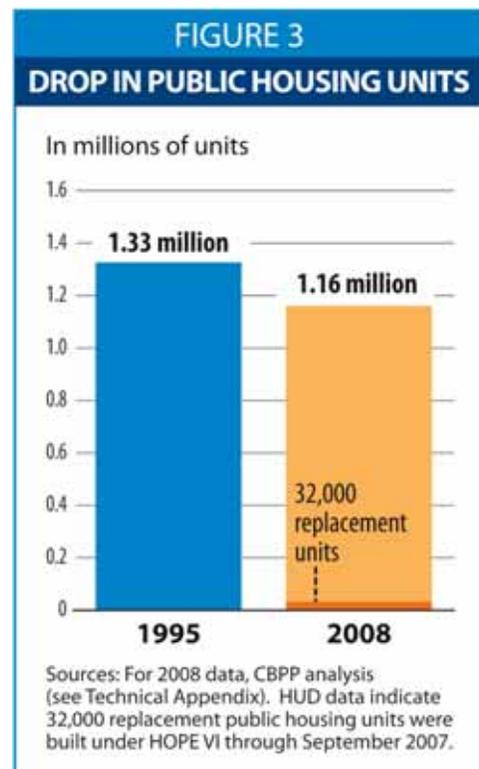
In 1996, Congress required agencies to identify large “distressed” projects with high vacancy rates that they could not preserve cost effectively and to demolish them within five to ten years.¹⁸ The Clinton Administration then announced a goal of approving the demolition and replacement of

100,000 distressed or obsolete units by 2000, hired consultants to assess developments that were candidates for demolition, and worked with Congress to streamline HUD's procedures for reviewing demolition requests.¹⁹ Some of the agencies with the largest number of severely distressed units received additional flexibility to revamp public housing through a deregulation initiative called the Moving to Work (MTW) Demonstration.²⁰

Most of the funding to accomplish these goals came from the annual appropriations for the HOPE VI program, which Congress initiated in 1993. HOPE VI gave local agencies funds to demolish distressed or obsolete public housing and replace it with mixed-income communities, usually created with the collaboration of private for-profit or non-profit developers. Through 2008, Congress has provided \$6.7 billion for HOPE VI.

HOPE VI has funded the demolition of about 155,000 units, or about 75 percent of all units removed from the public housing program, and HOPE VI grantees have built or plan to build 50,000 replacement public housing units and 48,000 non-public housing units.²¹ The mixed-income communities and public-private partnerships that the program has created are an important part of the dramatic changes in public housing over the last 15 years. Through HOPE VI as well as other initiatives, public housing agency staff got back into the business of developing (rather than just managing) housing and gained expertise in working with the complex tools of affordable housing finance.

While HOPE VI has improved the quality of the public housing stock and strengthened the capacity of local housing agencies, it also reduced the number of housing units affordable to poor families and permanently displaced many residents of the demolished projects. The House of Representatives passed legislation in January 2008 that would remedy many of HOPE VI's weaknesses, but no final legislation is expected to be enacted during the 110th Congress.²²



Helping Agencies Meet Their Capital Needs

Recognizing that public housing's capital needs (i.e., needs for repair and renovation beyond ordinary maintenance) were more substantial than annual appropriations were likely to meet, Congress gave agencies a number of new tools to meet the capital backlog as part of the 1998 Quality Housing and Work Responsibility Act (QHWRA).

First, QHWRA permitted agencies to borrow against a portion of their future capital fund grants to help meet their capital needs. Some of the largest agencies, such as those in Chicago, Puerto Rico, New York City, and the District of Columbia, have used this flexibility. The expertise required and high transaction costs involved make it more difficult for smaller agencies to use this type of debt financing, but some have done so by joining together in borrowing "pools," in some cases with the help of the state housing finance agency. Money borrowed must be repaid with interest, and due

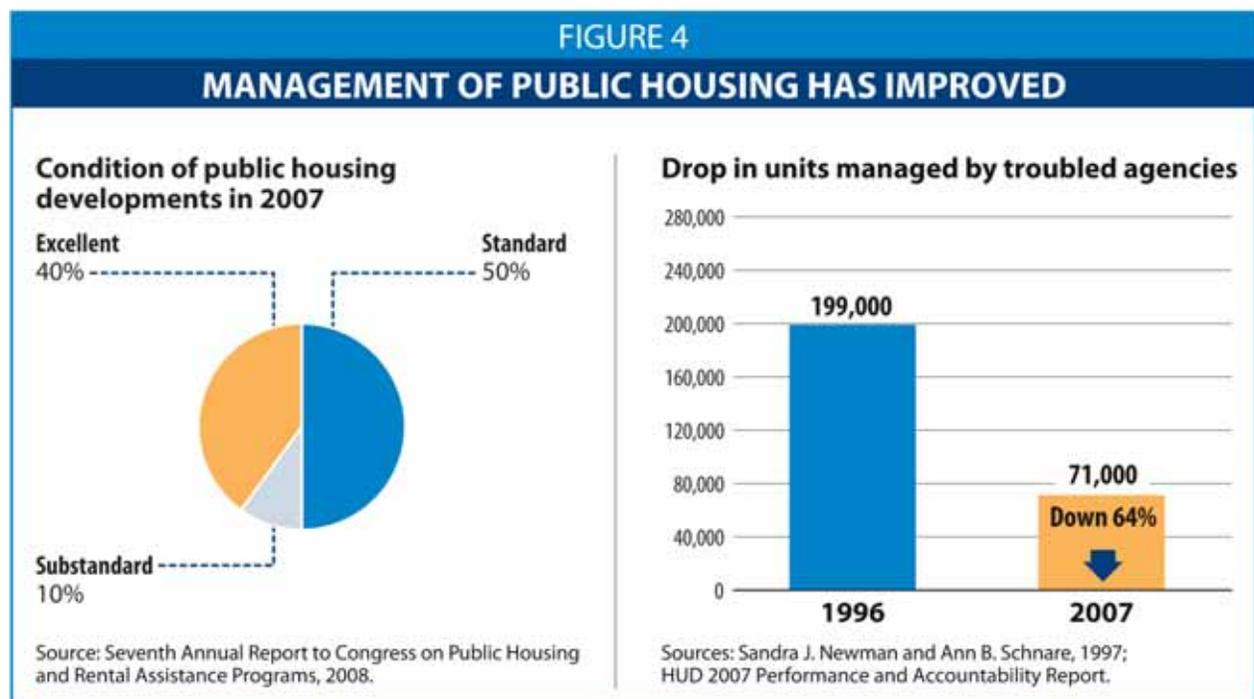
to limitations imposed by lenders or HUD, agencies typically cannot raise more than they can repay using one-third of their estimated future capital fund allocations. Nonetheless, agencies have raised significant sums this way, enabling them to improve tens of thousands of units. For example, Chicago raised almost \$300 million to renovate its elderly and scattered-site public housing.

In addition, QHWRA permitted agencies to set up non-profit and for-profit operating entities and enter into partnerships with these subsidiaries or other businesses. Such “mixed-finance” transactions allow agencies to use federal Low-Income Housing Tax Credits and similar state tax credits that help fund affordable housing development or rehabilitation but require the participation of a private party. This approach has certain limitations: agencies must usually compete for the limited amount of credits available, the transaction costs are high, and agreements must be carefully structured to ensure that providing an ownership interest to private parties does not jeopardize the developments’ long-term affordability. Nonetheless, the flexibility to participate in mixed-finance partnerships can give agencies access to an important source of added funds.

QHWRA also authorized HUD to allow agencies to borrow against the value of their developments by mortgaging public housing buildings like other real property. HUD, however, has not yet implemented this section of the law.

Improving Management of Public Housing Agencies

Federal policy changes also sought to improve the management of public housing agencies. While the management assessment tools HUD has imposed have been somewhat problematic, they — together with HUD’s concentrated attention on the most troubled agencies — have largely achieved this goal. Rather than ignore local management issues, as it largely had done previously, HUD has conducted active oversight since the early 1990s and has turned around most of the worst-managed agencies.²³ Fewer than 6 percent of public housing units are owned and managed by “troubled” agencies today, compared with 16 percent in 1996.²⁴



Some of this progress occurred because HUD enlisted local governments as responsible partners, overcoming some of the historical isolation of public housing agencies from local and state housing and human services planning, service delivery, and funding. As a result, a number of previously troubled independent agencies — including the housing authorities in Chicago and San Francisco — have become more closely tied to city governments, with the mayors taking responsibility for and leading the transformation of the public housing stock.

HUD currently is implementing a significant change in operations that could bring further improvements in public housing management. HUD is requiring agencies to implement an “asset management” approach, in which an agency assigns costs separately to each development (in some cases, to groups of developments). Previously, agencies typically lumped together costs from all their developments in a single, agency-wide budget. Particularly for large agencies, analyzing costs at the development level should make it easier to identify and address inefficiencies.

III. Funding Shortfalls Undermine Recent Progress

As a result of these recent improvements, most of the developments that drove the worst stereotypes of public housing no longer exist or have been transformed. Many public housing developments today provide decent housing in low-poverty neighborhoods or affordable homes for low-income elderly people or people with disabilities who would otherwise be forced to move to institutional settings or leave their home neighborhoods.

Nonetheless, there is a high risk that financial pressures will force housing agencies to demolish or sell many viable public housing units in the coming years. This risk stems largely from the federal government’s failure to provide sufficient funding to cover the costs of operating and maintaining public housing.

Federal Government Has Deeply Underfunded Public Housing in Recent Years

Federal law requires housing agencies to rent public housing to low-income families at rents the families can afford. (Generally, rents are set at 30 percent of family income.) Those rents are often inadequate to cover public housing developments’ operating costs (such as maintenance, security, and utilities), let alone the periodic capital investments required to keep the projects in livable condition. Consequently, the federal government provides subsidies through the Public Housing Operating Fund to cover the difference between rents and operating expenses, as well as subsidies through the Public Housing Capital Fund to address capital needs.

Operating Subsidies Fall Increasingly Short of Need

A federal formula determines the amount of operating subsidy each agency is eligible to receive. In some years, however, Congress has failed to provide sufficient funding to cover these amounts, so each agency has received a “prorated” percentage of its full subsidy instead. Prior to 2003, such prorations were intermittent and generally shallow: Congress prorated funding in ten of the 22 years from 1981 to 2002, but the prorations never lasted more than four consecutive years and agencies received an average of 98 cents for every dollar they were due.

Beginning in 2003, however, the federal government has underfunded agencies' operating subsidies for six consecutive years. The Administration's fiscal year 2009 budget request and the 2009 appropriations bills approved by the Senate Appropriations Committee and a House appropriations subcommittee all contain 2009 funding levels that would result in a seventh consecutive year of shortfalls. Moreover, the resulting prorations have grown deeper, falling below 90 percent of need each year since 2005.²⁵

The shortfalls in the last two years are particularly striking because in 2007, HUD put in place a new formula to determine the amount of operating funding for which agencies are eligible. This formula was the culmination of a multi-year, congressionally mandated effort to estimate more accurately the amount needed to bridge the gap between rental revenues and operating expenses at each individual development. Yet despite that effort, in 2007 the Administration requested a funding level far below the amount the formula required. Congress provided an additional \$300 million above the Administration's request, but this nonetheless resulted in only enough funds to cover 83 percent of the subsidies for which agencies qualified under the new formula. For 2008 Congress again increased funding for operating subsidies above the Administration request, but agencies will still receive only 89 percent of the funding due under the formula.

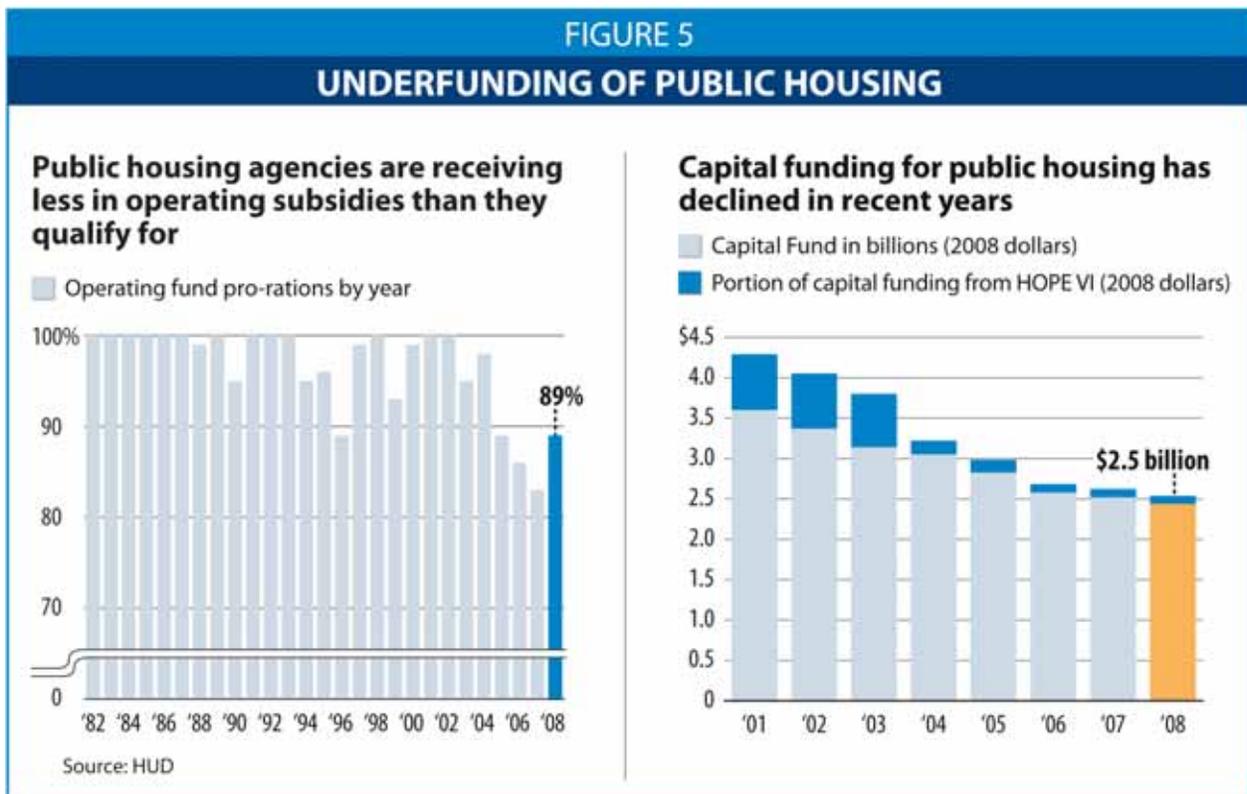
Large Backlog of Capital Needs Has Been Left Unaddressed

Funding for the other major public housing funding stream, the Public Housing Capital Fund, has also fallen well short of need in recent years. As noted, more than 85 percent of public housing units meet or exceed HUD's physical condition standards, and at least 40 percent of developments are considered physically excellent. Nonetheless, public housing developments — most of which are more than 30 years old²⁶ — have large underlying capital needs. Using findings from the most recent national assessment of public housing (which used 1998 data) and projections of trends since that study, we estimate that there are approximately \$22 billion in unmet capital needs in public housing developments.²⁷

Moreover, the \$22 billion figure is limited to the cost of repairing or replacing existing building features (such as roofs and heating and cooling systems) with only modest upgrades. For various reasons, some public housing developments may require more extensive changes, including major reconfigurations of floor plans. For example, as the nation's population ages, some communities may determine that they need fewer public housing units large enough to house families and more small units designed to house seniors. Other developments may need substantial redesign to increase safety and enhance interaction with the rest of the community, such as through changes in building and unit entrances. In addition, some developments are likely in such deteriorated condition — or so poorly designed or located — that replacement will be more appropriate than renovating the current structure. Replacement and major reconfiguration would further increase capital needs. For example, if 100,000 units were replaced rather than renovated, capital needs would rise from \$22 billion to \$32 billion.

In 2008, Congress provided \$2.4 billion for the Capital Fund. This amount, which is more than 32 percent below the 2001 level in inflation-adjusted terms, is too low to cover the new capital needs estimated to accumulate in public housing developments each year. As a result, few agencies will be able to use these funds to address the backlog of *existing* capital needs.

In addition, Congress has sharply reduced appropriations for the HOPE VI program, the primary source of funding for demolishing and replacing the most badly deteriorated public housing developments. (Congressional support for the program has remained strong, but the appropriations committees have had difficulty allocating substantial funds in the face of Administration attempts to eliminate the program.) HOPE VI funding has declined from a peak of \$625 million in 1999 to about \$100 million each year from 2006 to 2008. In 2007 (the latest year for which the grant process has been completed), this was enough only to help revitalize five developments. The most recent estimates suggest that there are at least several hundred “severely distressed” public housing developments (out of approximately 14,000 total developments) that would benefit from HOPE VI revitalization.²⁸



Underfunding Leads to Loss of Public Housing Units

The funding cuts and shortfalls of recent years have had serious, adverse effects on public housing and the low-income families with children, seniors, and people with disabilities it serves.

When federal funding is inadequate, housing agencies must reduce their expenses, generate added payments from tenants, or tap other resources. Initially some agencies coped with shortfalls by drawing on reserves or improving administrative efficiency, but as the shortfalls deepened and were sustained year after year, many have resorted to more extreme measures. For example, some local agencies have begun charging low-income tenants more for rent and utilities,²⁹ shifted units to tenants with higher incomes (who can be charged higher rents than lower-income households but typically have less need for assistance), or cut back in areas such as security or maintenance.

The consequences of forcing agencies to scrape by with inadequate funds extend beyond public housing developments. If agencies are compelled to reduce spending for upkeep of grounds and building exteriors, the resulting blight can harm the surrounding neighborhood. Moreover, older residential buildings like those in most public housing developments tend to consume unusually large amounts of energy and water. If they receive inadequate capital funds, housing agencies may have to forego efficiency improvements that would save scarce resources and reduce emissions of greenhouse gases and other pollutants.

Faced year after year with inadequate funding, many agencies have concluded that they can no longer sustain some or all of their developments. HUD reported in July 2008 that applications were pending to remove 16,672 units.³⁰ Agencies often cite underfunding as a major reason for removing developments from the public housing stock.

In some cases, agencies have demolished developments that have deteriorated to the point of uninhabitability (often because of cuts in maintenance, security, and other services). Others have sold a portion of their public housing stock to generate revenues to help them keep the remainder in operation, at least temporarily. Finally, some agencies have retained ownership of their developments but withdrawn them from the public housing program, which allows the agencies to charge higher rents but can reduce the share of the units available to poor families.

The loss of public housing could accelerate rapidly if a sizable number of large housing agencies opt to withdraw their developments from the program. Such wholesale withdrawals from public housing have been rare, but are beginning to emerge as the funding shortfalls drag on. In 2007, the San Diego Housing Commission withdrew all 1,366 of its public housing units from the program, citing inadequate funding and burdensome federal regulations as reasons for the decision. Housing authorities in Salt Lake City, Columbus, and Las Vegas all have announced or are considering plans to remove substantial segments of their stock from the program.³¹

Large-Scale Loss of Units Could Exacerbate Shortage of Affordable Housing

Historically, the loss of public housing units has led to an overall decline in the number of subsidies available in a community to make housing affordable to low-income households. Tenants in developments that agencies drop from the public housing program generally receive units in other public housing developments or “tenant-protection” vouchers to help them rent housing in the private market. In some cases, agencies have received vouchers to replace the public housing units that are vacant when they are removed from the program (as many units typically are in severely deteriorated projects), so that the number of housing subsidies available in the community does not decline. However, replacement of lost public housing units with vouchers has been far from complete.

For example, new vouchers have replaced only 57,000 of the 104,000 public housing units demolished through HOPE VI and not replaced with new public housing.³² In 2006 and 2007, HUD explicitly limited the issuance of replacement vouchers to units that were occupied when they were removed from the program. Recent legislative action, however, suggests that Congress is committed to full (or nearly full) replacement. The 2008 HUD appropriations bill requires HUD to issue vouchers to replace units removed from the program that have been occupied within the previous 24 months, and the House-approved Section 8 Voucher Reform Act (SEVRA) would require replacement of all lost units, without exception.

Even if Congress adopts a full replacement requirement like the one in SEVRA, however, continued shrinkage of the public housing stock could shift as many as several hundred thousand units from “project-based” subsidies like public housing to “tenant-based” vouchers that can be used in a modest unit of the tenant’s choosing. In some cases this shift is desirable; the voucher program has proven to be a highly successful form of housing assistance, and tenant-protection vouchers can cost-effectively enable some public housing tenants to move to safer neighborhoods or higher quality housing. As the next section explains, however, indiscriminately driving housing agencies to replace public housing developments with tenant-based vouchers without regard to local circumstances would likely prove counterproductive.

IV. Replacing Public Housing with Tenant-Based Vouchers is Often Unwise

The persistent underfunding of public housing in recent years has led a growing number of housing agencies to eliminate public housing developments in favor of tenant-based vouchers. Some policymakers and housing experts favor replacing public housing with vouchers as a general policy, arguing that the voucher program’s market-based approach is superior in most or all cases.

In fact, excessive “vouchering out” of public housing could *narrow* the housing opportunities available to some groups of low-income residents and in some types of neighborhoods. It also could cost the federal government more than providing sustainable funding to maintain developments as viable public housing.

Public Housing Remains Best Option for Some Families and Areas

For households that, because of their characteristics, are likely to have difficulty in using vouchers and in areas where vouchers generally are hard to use because of the limited stock of moderately priced rental housing, making the investments necessary to retain public housing is likely the best policy.

Of all demographic groups, seniors have had the least success in using vouchers. In 2000, only 54 percent of senior households that received vouchers from large metropolitan housing agencies were able to use them to obtain housing, well below the 69 percent success rate for all households.³³

One reason is limited mobility, which makes it difficult for many poor seniors to look for housing. In one study, well over half of the elderly individuals who received vouchers to relocate from public housing found it somewhat difficult or impossible to walk three city blocks, and most did not drive. In addition, seniors had the most difficulty of all relocatees in understanding how a voucher works or what help they could receive to search for housing.³⁴ The oldest seniors may be particularly likely to struggle to use vouchers, and to be harmed by having to move out of familiar surroundings. More than 50,000 public housing residents are 83 or older.

Public housing also is a critical resource for two other types of families whom the existing private rental housing stock does not serve well: households with members who have physical disabilities and large families with children. People who need housing adapted for wheelchair use or visual or hearing impairments (or to accommodate other physical disabilities) may have difficulty searching for housing to rent with a voucher or finding suitable units on the private market. Moderately-priced rental units with three or more bedrooms also can be hard to find in the private market. In

contrast, public housing provides an unusually large proportion of units that are accessible to people with disabilities or that have three or more bedrooms.³⁵ Where the private market has few units of the type that particular families require, vouchers are less likely to meet such families' housing needs.³⁶

Such factors are especially worth consideration given the disproportionate number of seniors and people with disabilities who live in public housing. Slightly over half of the households living in public housing are headed by a person who is 62 years of age or older or a younger person with disabilities.³⁷

Sixty percent of these "elderly" or "disabled" families live in "senior" developments or "senior" buildings within larger developments. (The remainder of these households, as well as seniors and people with disabilities who are part of households headed by a younger or non-disabled family member, live in general occupancy or "family" developments.) Many housing agencies provide service coordinators (funded by HUD) and other services to improve the quality of life of the roughly 300,000 seniors and people with disabilities who live in "senior" buildings.³⁸

To meet the increasing needs of aging residents and applicants, a number of agencies have redesigned senior buildings to make space for activity rooms and shared dining areas, as well as to reconfigure units and common areas to better accommodate mobility impairments and other issues. In this way, senior public housing can provide a continuum of care, in some cases equaling assisted living. Enabling these often frail individuals to age more comfortably in place also saves money: such service-enriched housing opportunities avert the public costs that would be incurred if individuals were forced to go into nursing homes to receive the services they need.³⁹ Moreover, the potential for such cost savings will grow as the population ages.

A final group that can particularly benefit from public housing consists of families that are most in need of a range of supportive services *if* the services they need are provided and the development is well-designed and well-located. A small portion of public housing families face multiple barriers to work and self-sufficiency, such as poor mental and physical health, limited education, and behavior problems of children.⁴⁰ Such families are especially likely to rely on support systems and services within the project and the local community. Moreover, there is some evidence that such families can benefit from a comprehensive set of services, which is more feasible in a "place-based" setting.⁴¹ Even for families with somewhat less-complex needs, public housing has been proven to be a successful platform for the provision of services to help families increase their earnings.⁴² To realize this potential more fully, however, changes outside of the public housing program will have to occur to make the necessary services and resources available.

Public Housing in Low-Poverty Areas May Be Irreplaceable

Public housing is an important resource not only for particular groups of people, but also in areas that are desirable places to live but where vouchers may be hard to use. Nearly a third of general-occupancy public housing units are in neighborhoods where fewer than 20 percent of residents are poor,⁴³ and close to a sixth are in neighborhoods with poverty rates below 10 percent. Such neighborhoods are likely to be safer and have better schools and other services and amenities than lower-income neighborhoods.

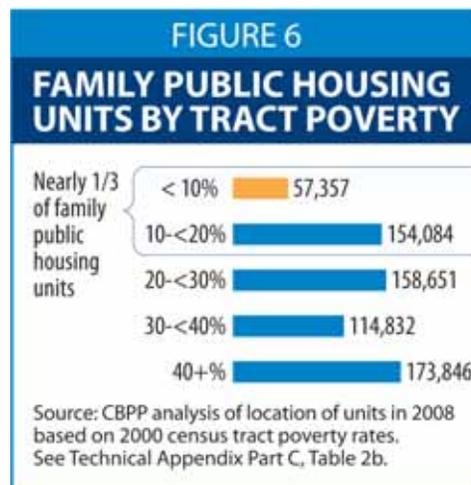
In general, vouchers are more effective in helping poor families move to low-poverty neighborhoods than other forms of housing assistance. On average, a much higher proportion of voucher holders nationally live in neighborhoods with low poverty rates than do residents of public housing or project-based Section 8 developments.⁴⁴

Nonetheless, voucher holders sometimes struggle to find housing in low-poverty neighborhoods. For example, one study found that families issued vouchers that could only be used in low-poverty areas were only about three-fourths as likely to successfully rent an apartment with their voucher, even with search assistance, as families issued vouchers they could use in any neighborhood.⁴⁵ This is because low-poverty areas often have few rental units with moderate rents. With high demand for units in such areas, landlords may prefer not to take on the additional requirements that come with accepting vouchers.⁴⁶ In addition, low-poverty neighborhoods tend to have relatively few minority families, so it may be more difficult for minority families to find landlords willing to rent to them. While racial discrimination is illegal in private as well as public housing, it continues to exist in many areas.⁴⁷

As a result, preserving those public housing units that are located in low-poverty neighborhoods is often the best way to enable low-income families to live in these areas. Moreover, it generally is very hard to develop new housing set aside for the lowest income families in low-poverty areas, because opposition from residents is often strong and land costs may be high. If public housing in those neighborhoods were lost, the opportunities these neighborhoods provide would be difficult, if not impossible, to replace.

Efforts to prioritize preservation of developments in low-poverty neighborhoods are complicated by the fluctuations that occur in neighborhood poverty rates over time. One analysis found that of census tracts with poverty rates between 30 and 45 percent in 1970, 14 percent had poverty rates below 15 percent by 2000. In more than a third of neighborhoods that had poverty rates of 15-30 percent in 1970, poverty rates were below 15 percent in 2000.⁴⁸ Many American cities have neighborhoods that have gentrified over much shorter periods.

Both because neighborhood poverty rates are a moving target and because it is difficult to build new affordable housing *after* a neighborhood has undergone an influx of higher-income residents, there will sometimes be an advantage to preserving some quantity of public housing units in neighborhoods that currently have moderate or even high poverty and where vouchers currently can



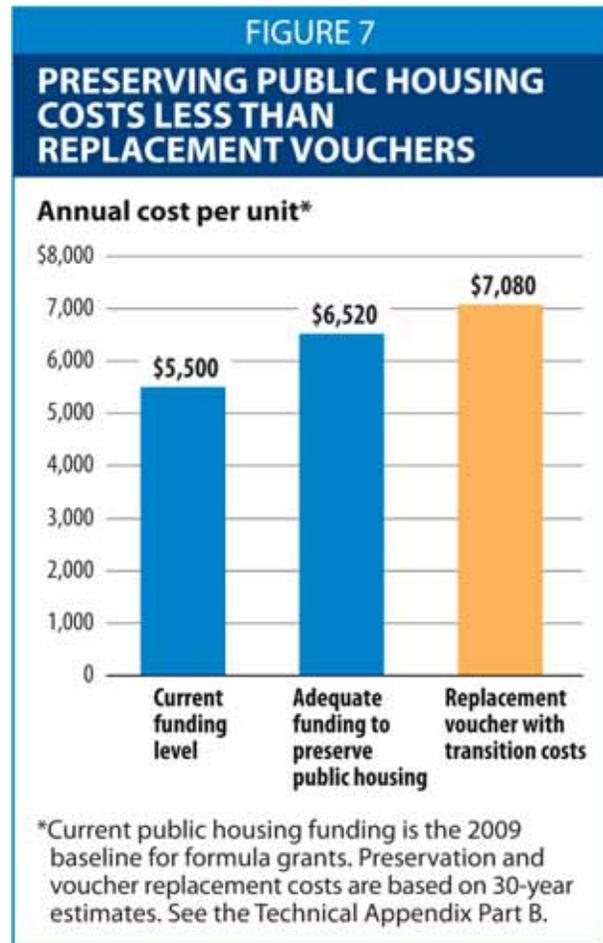
be used. This is particularly true when there is little other subsidized housing nearby that could serve the same types of families or when there are signs that the neighborhood is beginning to become more desirable or vouchers are becoming more difficult to use.

Replacing Public Housing With Vouchers Would Increase Federal Costs

In addition to eliminating some units that provide benefits vouchers cannot readily replicate, replacing public housing with vouchers on a large scale would substantially increase federal costs. We estimate that the average cost of providing a voucher to serve approximately the same population as public housing in the same regions of the country would be \$6,860 in 2009. (This figure includes administrative fees but does not include the funds the federal government would be obligated to provide to cover transitional costs such as demolition and relocation assistance for residents.⁴⁹) By comparison, if it continues to provide funding at the current level (adjusted for inflation) the federal government will provide only \$5,500 in operating and capital formula funding for each public housing unit in 2009.

This cost differential is large enough that, on average, it would be less expensive in the long run for the federal government to provide adequate funding to sustain units as public housing than to replace these units with vouchers. We estimate that on average over 30 years, the cost of renovating a typical public housing unit, maintaining it, and funding a reserve to cover a portion of future capital needs will come to approximately \$6,520 per year in 2009 dollars. This would be 5 percent less than the \$6,860 annual cost of a voucher, and 8 percent less than the average annual cost over 30 years of replacing public housing with vouchers when upfront transition funding is included.⁵⁰

The lower cost of preserving public housing reflects the large investments that the federal government and local agencies have already made in public housing developments. Generally, the local agency owns both the buildings and the land, so unless a building requires major redevelopment or reconfiguration, federal subsidies (along with tenants' rent contributions) need only cover the costs of operating the housing and making periodic capital repairs.⁵¹ By contrast, a voucher (together with the tenant contribution) pays the full cost of renting a unit — a cost that indirectly covers both ongoing operating and repair expenses and the use of the unit and the land on which it is located.



Replacement Vouchers Likely to Be Concentrated in Areas Where They Are More Expensive

Moreover, the above cost comparison likely *understates* the cost to the federal government of replacing public housing with vouchers. The factors that influence voucher costs and public housing costs largely vary independently from each other: voucher costs are driven primarily by market rents, while the cost of maintaining public housing developments depends in large part on their age and condition. Housing agencies can generally be expected to replace public housing developments with vouchers in those cases where rents — and thus the voucher subsidies the agency would receive — are relatively high.

To be sure, an agency's decision of whether to voucher out particular units is not likely to be based solely on relative funding. In many cases, even agencies in areas where voucher subsidies are relatively high would opt to retain public housing units if they received adequate funding to do so. But in the face of the deep underfunding that has occurred in recent years, vouchering out will offer more appealing options to agencies in areas where market rents are high and voucher subsidies are relatively large. (Under some circumstances, agencies must demonstrate that vouchers are more cost effective in order to voucher out a development, or are required to convert a development to vouchers if it shows signs of distress and it would be inefficient to maintain it as public housing. These cost comparison requirements, however, are sufficiently flexible and limited in their application they usually do not drive decisions whether to remove developments from the public housing program.)

The San Diego Housing Commission (SDHC) is one example. Before SDHC opted to withdraw from the public housing program, it received about \$2,500 annually in operating and capital subsidies per unit, *less than one-fourth* of the \$10,500 it received per voucher (including its administrative fees for running the voucher program). SDHC has retained control over its developments and will rent them to households with incomes up to 80 percent of the local median income (\$63,200 for a family of four in 2008), apparently at rents somewhat below market but well above the amount the agency previously received from public housing subsidies and tenant rent contributions. The agency says this approach will generate enough revenues not only to maintain the developments but also “to build or purchase other developments thereby increasing the inventory of affordable housing throughout San Diego.”⁵²

This approach is not without tradeoffs. Current residents would be issued vouchers and could use them either to rent their current units from SDHC or to move elsewhere, but there will be no guarantee that those units will be available to the neediest households in the future. Nonetheless, it represents a far better local option than is available to communities where rents and voucher costs are lower relative to public housing subsidy levels.

The Rochester (NY) Housing Authority, for example, received about \$5,300 per public housing unit in 2007 but only \$5,000 in funding for each voucher. If an agency like this withdrew from the public housing program, it might not be able to generate enough rent revenues (by renting the units either to current tenants using vouchers to help them pay, or to unassisted families) to maintain its developments — let alone build up a surplus to invest in other affordable housing properties. Thus, while agencies in low-rent areas with high-cost public housing may eventually be forced to demolish many of their developments if underfunding continues and the developments deteriorate, they are unlikely to move quickly to replace large segments of their stock with vouchers.

Consequently, most large-scale transitions to vouchers would likely occur in areas where they would substantially increase *federal* costs. The units that remain would tend to be located in areas where public housing subsidies are relatively high. As a result, such an outcome would cost the federal government substantially more just to provide housing assistance to the same number of families. At a time when federal resources for affordable housing are limited, this could leave less funding available to meet the large unmet need for housing assistance.

“Problem” Developments that Should Not Be Preserved Are the Exception, Not the Rule

Some public housing developments create such harmful environments for their residents that they should not be preserved in their current form, even if doing so offers a relatively inexpensive way to provide housing assistance. Policymakers have long been concerned that concentrating large numbers of poor families with children in housing developments, particularly in poor neighborhoods, can adversely affect residents. Many housing practitioners believe such developments cannot be made viable in the long term, regardless of improvements in their physical structures, unless the concentration of poverty in the projects and the surrounding neighborhoods is reduced substantially. These beliefs underlie many of the public housing policy changes of the last 15 years.

Recent research has validated many of these beliefs. Families with children that were able to use vouchers to move out of large, distressed public housing projects in high-poverty neighborhoods through the Moving to Opportunity Demonstration or HOPE VI fared better in many ways.⁵³ Most significantly, families enjoyed a substantial “safety benefit” compared with the dangerous conditions that prevailed in the public housing they left. For example, families that moved with vouchers as part of HOPE VI redevelopment efforts — who typically moved to moderate rather than low-poverty areas — “reported a wide range of life improvements including allowing their children to play outside, seeing less fighting among neighborhood children, sleeping better, and feeling less worried about drug dealing and violent crime.”⁵⁴

In addition to better quality of life, health improvements — such as reduction in obesity rates for adults and in depression and anxiety disorders for adolescent girls — have been among the notable changes found so far. This has been the case even when families relocated only to moderate-poverty neighborhoods, though movers to lower-poverty neighborhoods experienced greater health benefits. A major cause of improved health, researchers suggest, was the reduction in stress as a result of living in safer, quieter neighborhoods.⁵⁵ Particularly for adolescent girls, an additional reason for the significant improvements in mental health of those who moved to lower-poverty neighborhoods was the reduction in sexual victimization.⁵⁶ Girls also were less likely to be involved in crime or to engage in other problem behaviors.⁵⁷

Research and experience suggest that the living environments most likely to have a deleterious effect on residents are large projects in high-poverty neighborhoods with a concentration of poor families with children. Making major investments to improve the physical condition of such developments may not make financial sense or be good public policy unless the improvements — or other accompanying efforts, such as initiatives to strengthen local schools — are likely to reduce the concentration of poverty within the development and the surrounding community.⁵⁸ Without such a reduction, families will often be better served by a tenant-based voucher that allows them to move

to a safer, lower-poverty neighborhood. (While families continue to reside in such often-dangerous developments, however, it will be important to provide adequate policing and take other measures needed to improve their safety.)

Urban Institute researchers have concluded that residents of metropolitan neighborhoods with poverty rates of more than 30 percent “experience significantly higher rates of disadvantage and distress than residents of lower-poverty neighborhoods do, even after controlling for individual race, ethnicity, and income level. The incidence of undesirable outcomes rises with neighborhood poverty rates for almost every indicator of adult and child well-being.”⁵⁹ The poverty rate will not always be a precise indicator of the living environment a neighborhood provides for its residents, but it does correlate with the quality of that environment to a considerable degree.⁶⁰

TABLE 1

FAMILY PUBLIC HOUSING BY SIZE AND TRACT POVERTY

Units	Development size						Total
	1-25	26-50	51-100	101-249	250-500	501+	
Total Units, 2008	19,573	47,453	79,920	124,585	93,236	34,016	398,783
Median Tract Poverty, by unit	15.4%	17.8%	21.6%	29.7%	37.1%	46.5%	
Number Units, <10% poverty	5,773	9,803	10,373	13,048	7,238	601	46,836
% units in size category in <10% poverty	29.5%	20.7%	13.0%	10.5%	7.8%	1.8%	
Number Units, 10- <20% poverty	6,851	17,136	25,218	21,907	10,573	2,183	83,868
% units in size category in 10- <20% poverty	35.0%	36.1%	31.6%	17.6%	11.3%	6.4%	
Number Units, 20- <30% poverty	3,538	10,236	20,770	28,478	17,120	3,358	83,500
% units in size category in 20- <30% poverty	18.1%	21.6%	26.0%	22.9%	18.4%	9.9%	
Number Units, 30- <40% poverty	2,294	6,290	13,747	26,761	15,610	5,165	69,867
% units in size category in 30- <40% poverty	11.7%	13.3%	17.2%	21.5%	16.7%	15.2%	
Number Units, 40+% poverty	1,117	3,988	9,812	34,391	42,695	22,709	114,712
% units in size category in 40+% poverty	5.7%	8.4%	12.3%	27.6%	45.8%	66.8%	

*CBPP calculations of general occupancy units available in 2008 in metropolitan areas excluding New York City, based on 2000 Census tract characteristics. A more detailed version of this data is available in the Technical Appendix Part C, table 3b2.

The number of large public housing developments located in neighborhoods with poverty rates above 30 percent of poverty, however, is fairly small. Contrary to the common stereotype, most “family” public housing units are in small or medium-sized developments outside high-poverty neighborhoods. More than half (56 percent) of general-occupancy units are in areas that are less than 30 percent poor, and two-thirds are in projects that have fewer than 250 units.⁶¹ Putting the measures of neighborhood poverty and project size together, 78 percent of general-occupancy units in metropolitan areas (outside New York City) are in small- to medium-sized developments or in low- or moderate-poverty areas. Only 86,000 general-occupancy units — *less than 11 percent of all public housing outside of New York City* — are in large projects in high-poverty neighborhoods.⁶²

V. Policy Recommendations to Preserve and to Replace Public Housing

In summary, current federal policy persistently underfunds public housing while offering replacement with tenant-based vouchers as the chief alternative for agencies that cannot make ends meet. There are two major problems with this approach:

- Many public housing developments provide benefits that tenant-based assistance cannot replicate. These include housing for elderly households and others who often do not succeed in using vouchers, as well as access to neighborhoods where vouchers are difficult to use.
- It will often be more expensive for the federal government to issue replacement vouchers than to provide adequate funding to preserve a development as public housing. By driving up the costs per family of providing federal housing assistance, replacing such developments with vouchers would potentially divert funds that could otherwise be used to help some of the millions of low-income families that qualify for housing assistance but do not receive it.

This does not mean that *all* public housing merits preservation. As noted above, a small proportion of remaining units are located in areas where preservation may be ineffective or counter-productive, unless mixed-income redevelopment is feasible. To best meet the needs of the families that federal housing assistance programs are intended to help, the federal government should adopt a comprehensive plan for public housing that includes the following components:

1. immediate restoration of full operating subsidies for all public housing units;
2. a process for housing agencies to obtain adequate funding for the rehabilitation necessary to preserve public housing, with priority given to developments that are most cost effective relative to tenant-based vouchers;
3. an option for agencies to convert public housing developments to “project-based” Section 8 vouchers that would expand choice for residents while ensuring that the development continues to provide housing for the neediest families; and
4. a requirement that agencies convert large projects in low-opportunity neighborhoods to mixed-income developments, replace them with equally affordable housing elsewhere, or convert them to tenant-based vouchers.

These proposals are described in more detail below.

1. Full Funding for Operating Subsidies

The most basic step in enabling housing agencies to sustain their public housing units is to provide adequate operating subsidies. Without sufficient funding to fill the gap between the rent revenues they receive and the operating costs they must cover, agencies will have difficulty retaining public housing developments, even when doing so would be cost effective and provide clear benefits. Restoring full operating funding would send a clear message that the federal government intends to meet its obligations to public housing and should slow the loss of public housing significantly.

Congress and HUD have gone to great lengths in recent years to assess the amount of operating subsidies agencies need and to develop a formula to allocate that funding among individual agencies. The Administration should request and Congress should provide adequate funding to cover 100 percent of the amount that formula specifies.

As discussed below, there are strong arguments in favor of creating a unified funding stream that would distribute funds to meet agencies' operating needs as well as their ongoing capital needs. The amount of the operating subsidy would be largely based on the current operating fund formula, except that some flaws in that formula should be addressed. For example, the current formula calculates the gap between operating costs and rents on the basis of the rent revenues an agency received in 2004, without any adjustment for inflation. Since rent revenues typically rise over time (particularly for tenants receiving Social Security and other benefits with an automatic cost-of-living adjustment), this approach makes agencies eligible for more money than they need to cover their costs. That, in turn, potentially wastes federal funds and makes it less likely that Congress will provide the full amount for which agencies are eligible. The formula should be corrected to determine funding based on the most current data available on agencies' rent revenues.⁶³

2. Funding to Preserve Public Housing

At the same time that policymakers close the most urgent short-term gaps in agencies' budgets by fully funding their operating subsidies, they should establish a multi-year process to allocate "preservation funds" to address the capital backlog at public housing developments. This process, which would replace the public housing capital fund, should enable agencies to preserve the bulk of the remaining public housing stock (excluding the large projects in low-opportunity areas discussed below).

To ensure that funds are well used and that the most beneficial preservation efforts are funded first, Congress should require agencies to submit funding applications containing detailed preservation plans and cost estimates. HUD would then evaluate these applications and make funding allocations.⁶⁴

Funding Amounts and Priorities

As discussed below, some agencies could receive preservation funding through up-front federal grants, while others would borrow funds to address their capital needs and then receive additional federal funding over time to repay those funds. Whichever mechanism is used, two factors should limit the amount of preservation funding an agency could receive to address a given development's capital backlog.

First, agencies should be eligible only for the amount necessary to restore a development to good, sustainable condition and add certain essential features, such as making enough units accessible for people with disabilities to meet Fair Housing Act requirements. The preservation funding should *not* cover such discretionary improvements as reconfiguring floor plans or demolishing a development and replacing it with a new one. (Funding to replace severely distressed units is discussed below.)

Second, the amount of preservation funding should be capped so that over a period of 30 or 40 years, the total cost of preserving a development as public housing does not exceed the cost of

replacing it with vouchers *unless* the agency demonstrates that a development provides benefits that tenant-based vouchers would not replicate. Examples of developments that would provide such benefits, and thus be eligible for added funding if needed, include:

- developments located in neighborhoods where voucher holders have had difficulty using vouchers, such as those with relatively little rental housing or low vacancy rates;
- developments with units suitable for particular groups that typically have difficulty using vouchers, potentially including the elderly, people with disabilities, or large families; and
- developments that provide supportive services that would be hard to deliver to scattered tenant-based voucher holders.⁶⁵

The preservation funding discussed here would place a floor, not a ceiling, on the investments made to preserve a development. In some cases an agency may conclude that it is important to preserve a development even though it does not fall into the priority categories described in the bullets above and preservation would cost significantly more than replacement vouchers. In other cases, an agency may wish to undertake a more costly renovation than federal standards deem necessary.

Therefore, agencies should be permitted to supplement public housing funds with state or local resources or other federal funding streams. The largest source of federal capital funds for affordable rental housing is the Low-Income Housing Tax Credit (LIHTC). Housing agencies have already used LIHTCs to rehabilitate or replace many public housing developments, particularly those redeveloped under HOPE VI. LIHTCs should be a major supplemental resource for public housing redevelopment.

The availability of LIHTCs depends, however, on the willingness of the *states* to commit the limited amount of such credits they receive to public housing. Congress should consider measures to further support use of LIHTCs at public housing developments, potentially including an increase in the share of a development's costs that the credits can cover.

Priorities in Allocating Preservation Funding

Given the constrained budget environment, Congress is unlikely to increase public housing funding in a single year by enough to fully fund operating subsidies *and* immediately meet all public housing developments' preservation needs. Moreover, many agencies would not be prepared to immediately put such a large infusion of capital to use at all of their developments, even if they worked with private partners. Instead, Congress should provide the needed funding gradually over a period such as five years. In the meantime, developments that have not yet been approved for preservation funding should continue to receive sufficient capital funds to cover short-term repair and replacement needs.

Congress and HUD should establish basic standards that applications must meet to receive preservation funding. The housing agency should demonstrate that it has the capacity to oversee the planned project; cost estimates should be reasonable; and if the agency plans to supplement public housing funds with other resources, it should explain how it will obtain them. (Some agencies will

need technical assistance to develop preservation plans. Modest funding should be made available for this purpose.)

In addition, criteria will be needed to determine which developments receive funding first. Most significantly, applications should be evaluated based on their cost-effectiveness relative to vouchers. For example, a development should receive priority for funding if it would provide decent housing at a cost far below that of a voucher in the same area, or if its costs are similar to those of vouchers but it would provide major benefits that vouchers cannot.

The process described here for determining funding amounts and priorities likely will not preserve all developments (even setting aside large developments in high-poverty areas). Some agencies may decide, in consultation with other stakeholders, that vouchers would better serve the eligible population. Other agencies may be unable to obtain enough supplemental resources to preserve developments that they wish to preserve but that do not meet federal priorities.

Assuming that Congress commits the needed resources over a period of several years, however, such a process should preserve most of the remaining public housing stock. And importantly, this approach should be particularly effective in preserving those developments where replacement with tenant-based vouchers would either *increase* federal costs or *narrow* the housing opportunities available to low-income people.

Types of Preservation Funding: Capital Grants and Debt Financing

Congress could provide preservation funds to address existing capital needs in two main ways. It could give qualifying agencies direct, up-front grants to renovate public housing developments. Alternatively, it could allow agencies to borrow the needed funds, while providing added federal subsidies over the period of the loan to cover the resulting debt payments.

These two approaches would have different implications for the federal budget. Up-front grants would require a large infusion of funds in the short term but would not create long-term liabilities. Debt financing, on the other hand, would require a much smaller immediate funding increase, but the increase would need to be sustained until the loan is repaid.⁶⁶

Overall, debt financing would be somewhat less efficient, because lenders would charge agencies interest rates substantially above those the federal government pays on its debts. In addition, lenders would insist that an agency's annual funding level cover not only debt payments and reasonably anticipated operating costs but also a "debt-coverage" cushion (typically 10 to 20 percent of the debt payments) to reassure lenders that the risk of default is low. (Lenders typically require such a cushion in private as well as public rental housing transactions. The amount of the required cushion would be lower if the loan carried federal insurance.) In addition, borrowing funds involves legal, appraisal, and accounting fees and other transaction costs, which further reduce the efficiency of borrowing compared to grants.

The total existing capital need is so large — more than \$22 billion by our conservative estimate, as discussed in Part III — that Congress is unlikely to provide enough up-front funding to eliminate the backlog even over several years. Consequently, debt financing will have to address much of the

backlog. Because up-front grants are more efficient, however, it will make sense to use grants to address capital needs to the extent that sufficient appropriations can be obtained.

Targeted Preservation Grants

Unlike the current capital fund, preservation grants should not be distributed in small amounts to cover a portion of needs at all developments. Instead, the grants should be provided in amounts large enough to allow agencies to undertake needed renovations immediately, and should be targeted on the agencies and developments for which debt financing is unduly costly or ineffective. Possible examples include:

- Small agencies and types of developments (such as housing for the elderly) that tend to have relatively low needs, since the transaction costs involved in debt financing are proportionately higher when the amount to be borrowed is low.
- Developments with unit configurations that are unusual in the local market (such as efficiencies or units with small room sizes or large numbers of bedrooms) but meet the needs of a segment of the community's low-income population. Lenders may be reluctant to extend adequate loans to rehabilitate such developments if the agency does not also reconfigure them to make them "market comparable."
- Developments that meet important community needs but have high rehabilitation costs compared to local market rents. Lenders often will not provide loans if the required debt payments exceed the rent the unit could command in the market, since market rents represent the revenue a property could generate if federal subsidies were terminated.

Measures to Support Debt Financing

If housing agencies are to use debt financing to address a large portion of their capital backlog, the federal government needs to strengthen their capacity to borrow. Currently, agencies can use debt financing only in limited ways, primarily by borrowing against a portion of their future capital fund grants. Agencies could borrow more if they could use the public housing property itself as collateral for the loan, as is typical in private real estate. In 1998 Congress authorized HUD to permit agencies to mortgage developments, but HUD never issued implementing regulations.⁶⁷

In addition to enabling agencies to mortgage their properties, the federal government should make sure that the property is preserved as affordable housing for low-income tenants if the lender forecloses because the agency fails to make required mortgage payments. For example, lenders that foreclose could be required to give another public or non-profit entity the first option to purchase the development. In addition, post-foreclosure owners could be required to maintain the property as affordable rental housing and to accept tenant-protection vouchers issued to residents at the time of foreclosure. They could also be required to accept "project-based" voucher contracts if offered by the agency, which would ensure that other low-income households have access to the property after the current tenants move out.

In addition, Congress could guarantee loans needed to finance improvements at public housing developments. Such guarantees would make loans easier to get and would likely reduce borrowing costs, as lenders would be willing to offer lower interest rates if federal insurance reduced their risk.

*Unified Funding Stream for Operating Subsidies,
Debt Payments, and Replacement Reserves*

After approval of their preservation plan, agencies should receive all of their ongoing public housing subsidies in a single funding stream. It would include operating subsidies, any debt-payment subsidy they are assigned through the preservation process, and funding to cover a portion of new capital needs that accumulate over time. A combined funding stream would follow the model used in the project-based Section 8 program, where owners receive a single federal subsidy payment that covers both operating and capital needs.

Currently, public housing funding is divided into a capital fund and an operating fund. This division unnecessarily complicates the funding process and prevents agencies from allocating funds where they are needed most. Moreover, only the operating fund now has a formula that defines a full funding level for each development; the capital fund formula simply sets the percentage each agency receives of whatever amount Congress provides, so there is no agreed-upon way to determine whether the fund is adequate or is under (or over) funded. Partly due to this difference, the Administration and Congress have found it easier to allow capital fund appropriations to erode over time. Since 2001, funding for the capital fund has dropped by 32 percent in inflation-adjusted terms, while operating funding has fallen 1 percent.⁶⁸

To address these shortcomings, Congress should eliminate the separate capital fund and instead provide ongoing capital funds and operating subsidies together in a single funding stream.

In addition to operating and debt-payment subsidies, this combined funding stream should include a “replacement reserve” contribution. In private housing, owners typically contribute to such a reserve each year and use the deposits periodically to replace appliances or meet other capital needs that arise. Replacement reserves ensure that adequate resources are available to keep developments in good condition between major renovations.

3. Converting to Project-Based Vouchers

The funding streams described above would provide adequate resources to rehabilitate most of the public housing stock. Some public housing developments, however, would benefit from conversion to a different funding mechanism: the project-based Section 8 voucher.

Most Section 8 vouchers are “tenant-based,” meaning that they can be used to rent a modest apartment of the tenant’s choosing in the private market. But housing agencies are permitted to “project-base” some of their vouchers, meaning that the voucher would be attached to a particular development, which can be owned by a for profit or non-profit entity or the housing agency itself. Such vouchers have several important benefits.

- *Supporting debt financing.* Converting a public housing development to project-based vouchers would allow housing agencies to borrow more (and/or on better terms) than they could if a building remained in the public housing program. Lenders would likely perceive the stream of subsidies from project-based vouchers as more reliable, because Congress has provided adequate funding more consistently for vouchers than for public housing. Moreover, even if voucher funding were inadequate in a particular year, agencies would likely respond by cutting

back their *tenant-based* voucher programs temporarily through attrition (that is, by not reissuing vouchers that become available) to try to avoid breaking an agreement to provide *project-based* voucher funds to a development. Public housing developments have no such cushion, so they bear the full brunt of any shortfalls.

- *Facilitating income mixing.* Since agencies can attach project-based vouchers to developments other than existing public housing developments, these vouchers make it much easier for an agency to create mixed-income developments without loss of affordable units. For example, an agency could replace a development that is 100 percent public housing with two or more developments containing some project-based voucher units and some units targeted at tenants with higher incomes.
- *Giving families the option to move.* A family that has lived in a project-based voucher unit for a least one year is permitted to move out of the development using the first tenant-based voucher that becomes available. Public housing tenants do not have this option, and generally must remain in the unit assigned to them in order to keep their subsidy.

In addition to giving families wider choices, an option for tenants to move would impose a measure of market discipline on development managers. If a development were so unsafe or badly maintained that many tenants moved out after brief stays, the agency would face higher costs (to prepare units for new tenants and process other paperwork related to turnover) and could also face lower rent revenues (since project-based voucher payments cannot be made for a unit that has been vacant for more than 60 days, and it may be difficult for the agency to fill units in that time).⁶⁹ As discussed below, market discipline would be even stronger at mixed-income developments, where some units must be rented at market or near-market rents to tenants who could find other suitable housing.

Currently, project-based vouchers can be used in former public housing units, but there are significant constraints on an agency's ability to do so. Agencies may not use more than 20 percent of their voucher funds for project-based vouchers, and project-based vouchers may not make up more than 25 percent of the units in a given development unless the development meets certain exceptions. As a result, agencies have used project-based vouchers to replace public housing subsidies in only a relatively small number of developments.

There are two ways Congress could encourage wider use of project-based vouchers. First, it could exempt converted public housing developments from the cap on the number of units in a development that can be project-based. Second, it could allow as much as 50 percent of an agency's voucher assistance to go to project-based vouchers when converted public housing units are included.⁷⁰

It would not be advisable to allow unlimited conversion of public housing to project-based vouchers immediately — which could result in hundreds of thousands of units moving from one program to the other — since this approach for public housing is largely untested. A large-scale conversion to project-based vouchers would also require substantial increases in voucher funding, which could divert resources needed to provide new vouchers to address the large unmet need for housing assistance.

Therefore, Congress should authorize a limited number of conversions, such as 40,000 per year. If these are successful, the conversions could continue until they have reached all public housing units where they are appropriate. This gradual approach would allow Congress, HUD, housing agencies, and private-sector parties such as lenders to learn lessons they could apply to later conversions, and would require only modest additional voucher funding each year.

Initially, it would make sense to target the conversions on (1) family developments in low-opportunity areas (including the large developments discussed in the following section), where tenant choice and income-mixing are particularly important, and (2) projects with unusually high capital needs, which would struggle to obtain adequate resources without the expanded borrowing that project-based vouchers would allow in many markets.

4. Requirement That Agencies Convert Large Projects in Low-Opportunity Areas

In light of the serious adverse effects on public housing tenants of living in large developments in neighborhoods with high poverty rates and other problems, Congress and HUD should establish clear criteria to identify “low-opportunity” neighborhoods and policies to discourage agencies from retaining large, non-mixed income family public housing developments in those areas.

The criteria should include not only the neighborhood poverty rate, but also a broad range of other factors such as the crime rate, the quality of local schools, access to public transportation and other services, and recent trends in home values or market rents (or other indicators of the trajectory of neighborhood change). Based on these criteria, agencies — in consultation with residents and other community stakeholders — should be required to identify large projects in low-opportunity neighborhoods, with federal oversight to ensure that projects are identified properly. As a condition of receiving increased federal funding to rehabilitate such developments, agencies should be required to convert them into mixed-income projects. Alternatively, agencies should be eligible to receive funding to develop replacement housing in higher-opportunity neighborhoods.

Converting to mixed-income developments would eliminate extreme concentrations of poor families, which research has linked to harmful effects on residents. It also would impose a level of market discipline on the developments that does not currently exist. Agencies would need to rent a substantial share of the units to *non*-public housing tenants for rents at or close to local market levels. Attracting such tenants would generally require major renovations of these projects, and the private lenders or investors needed to fund those renovations would not participate unless they believed that the planned development (and the surrounding neighborhood) could attract renters who have the means to choose other housing. In addition, managers would feel pressure to maintain units in good condition and provide an adequate level of security and other services.

The required mixed-income conversions would carry considerable costs, since most developments would require major renovation (or demolition and replacement) in order to attract non-low-income tenants. Replacing even 50,000 of the 86,000 potentially problematic units with mixed-income developments would cost more than \$7 billion, although a portion of that amount could be funded through Low-Income Housing Tax Credits or non-federal resources.⁷¹

Congress could provide substantial resources to support mixed-income redevelopment of these projects, or their replacement in higher-opportunity neighborhoods, by restoring funding for HOPE

VI to its (inflation-adjusted) level in 2003, before the sharp funding cuts of recent years. This would come to \$675 million in 2009. Before expanding HOPE VI in this manner, however, Congress should strengthen the program by requiring replacement of all lost units with new public housing or units that provide equivalent long-term affordability and also requiring strong supportive services for public housing residents who are displaced, including those who later return to the rebuilt development.⁷²

If Congress does not provide adequate funding to convert or replace all of the projects identified under the proposed requirement, the units in the developments should be replaced with tenant-based vouchers and effective relocation assistance should be provided to tenants so that they are able to use their vouchers to move to higher-opportunity areas.⁷³

Conclusion

Failure to invest in the preservation of public housing will harm millions of the most vulnerable Americans. It would also be short-sighted and lead to increased federal costs to provide affordable housing and care for our aging population. Most public housing now serves seniors and people with disabilities or provides homes to families with children in small or medium-sized developments outside of high poverty areas. The nation needs a comprehensive plan that will ensure that this vital national resource remains available and provides safe and high quality housing for the next generation.

Endnotes

¹ The original research presented in this analysis on the current public housing stock and its location was performed by Leah Staub, who has been an intern in the Housing Policy Unit since the summer of 2007. We are indebted to her for her painstaking work.

² The Technical Appendix explains how we estimated the current number of public housing units and their occupants.

³ U.S. Government Accountability Office, "Distressed Conditions in Developments for the Elderly and Persons with Disabilities and Strategies Used for Improvement," GAO-06-163 (2005). The figure of 350,000 seniors living in public housing currently is our estimate, based on HUD data. See the Demographics section of the Technical Appendix.

⁴ Fifteen percent of public housing families with children are headed by a person who is elderly or has disabilities.

⁵ HUD, "Seventh Annual Report to Congress on Public Housing and Rental Assistance Programs," 2008.

⁶ Douglas Rice and Barbara Sard, "The Effects of the Federal Budget Squeeze on Low-Income Housing Assistance," Center on Budget and Policy Priorities, February 1, 2007, p. 10, n. 21.

⁷ HUD, "Affordable Housing Needs, 2005: Report to Congress," Table A-4. This is the number of unassisted renter households with incomes below 80 percent of the area median income (the eligibility limit for public housing) who have moderate or severe housing problems.

⁸ CBPP tabulations of data from the 2006 and 2000 American Community Survey.

⁹ Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century, "A Quiet Crisis in America: A Report to Congress," 2002, p. 39. The commission found that in 1999 there were 1.2 million rent-assisted units occupied by a person age 65 or older, one for every 5.82 senior households with housing problems. Given the projected growth in the senior population, the commission's majority report found that another 700,000 units would be required by 2020 (assuming the 1.2 million existing units were preserved) to maintain the ratio of one rent-assisted senior

household to 5.82 senior households with housing problems. The minority report, submitted by six of the commission's 13 members, estimated that more than twice as many additional units would be needed to meet the needs of *half* the anticipated number of very low-income senior renters with housing problems in 2020. *Id.*, p 153.

¹⁰ CBPP analysis of HUD and 2000 Census data finds that only 11 percent of family *projects* are in neighborhoods where 40 percent or more of residents were poor in 2000. The table on p. 20 includes additional key findings from this analysis, and complete data are included as Part C of the Technical Appendix, which also explains how CBPP analyzed the location of existing public housing and the data we used to identify family and senior public housing developments. Analyzing the locations of the public housing stock in late 1995, Newman and Schnare found that 43.4 percent of family public housing units (and 36.5 percent of all units) were in extreme-poverty neighborhoods, based on the 1990 census. Sandra J. Newman and Ann B. Schnare, "'... And a Suitable Living Environment': The Failure of Housing Programs to Deliver on Neighborhood Quality," *Housing Policy Debate* 8:4 (1997), pp. 703-741, at p. 718. Our updated analysis found that 22 percent of all available public housing units, including senior developments, are in extreme poverty neighborhoods (based on 2000 census data).

¹¹ Including New York City and senior projects but excluding U.S. territories, there are now 175,000 units in projects with more than 500 units, compared with 285,000 units in projects of this size in 1996. HUD, "A Picture of Subsidized Households," <http://www.huduser.org/datasets/assthsq/statedata96/allst.htm>.

¹² HUD, FY 2007 Performance and Accountability Report, p. 182. This figure is based on data from HUD's inspection system. If HUD used as the "universe" for this percentage the 1.15 million units eligible for an operating subsidy that year, about 165,000 units were in substandard physical condition in 2007. This figure may overstate the number of units needing major repairs, as units can be judged substandard based on problems that would cost little to remedy, such as lack of smoke alarms or debris on the grounds. G. Thomas Kingsley *et al.*, *Lessons from HOPE VI for the Future of Public Housing* (Urban Institute, 2004). On the other hand, HUD's physical condition standards do not measure conformity with modern standards of adequate living or storage space; nor do they assess neighborhood or safety factors or any reconfiguration needs.

¹³ HUD, "Seventh Annual Report to Congress on Public Housing and Rental Assistance Programs," 2008, p. 32. HUD acknowledges that a somewhat smaller share of *units* qualify as being in excellent condition, as larger developments tend not to be in as good condition as smaller developments.

¹⁴ HUD data indicate approval of demolition or "disposition" (typically, sale) of 217,875 units for which requests were made beginning in 1995. See http://www.hud.gov/offices/pih/systems/pic/sac/demolition_disposition_report2.xls, accessed June 24, 2008. This figure may include some units that are still standing, and may double-count some units. By our calculation, as explained in the Technical Appendix, there are 1,161,000 available public housing units in mid-2008 (not approved for demolition or disposition), 165,000 fewer than the 1,326,000 budgeted units in 1995 (after adjusting for the subsequent shift of about 68,000 units on Native American reservations to other funding). During this period, about 32,000 replacement units were built through HOPE VI, indicating that nearly 200,000 units were demolished or otherwise removed from the public housing program.

¹⁵ Paralleling this drop in the share of families reporting welfare as their largest source of income, by 2006, some 53 percent of families with children reported some earned income, and for 48 percent, work was their largest source of income. By contrast, in 1997 only 36 percent relied primarily on earned income. HUD, "Seventh Annual Report to Congress on Public Housing and Rental Assistance Programs," 2008. It appears that these figures on the income of families with children include households whose head is elderly or has disabilities, which made up 14 percent of families with children living in public housing in 2006. (Some households may have had two parents, one of whom could have been able to work.) If none of these households have earned income, 62 percent of the remaining families with children (those where neither the head nor the spouse of the head is elderly or has a disability) reported some earned income in 2006. (More families may have a wage earner than report earnings to the agency.) Some of the shift in income sources may be due to the demolition of distressed units where welfare-dependent families were more likely to reside. About 125,000 fewer families with children reside in public housing now than in 1996.

¹⁶ In 2000, 2.5 million fewer people — and 1.3 million fewer *poor* people — lived in extreme-poverty census tracts (where more than 40 percent of residents were poor) than in 1990, despite the fact that the total number of people who were poor was 2.2 million larger in 2000, due largely to population growth. This change largely reflected a 26 percent reduction in the number of extreme-poverty census tracts, as some residents' incomes increased and some poor families relocated. The decline in concentrated poverty was particularly dramatic for poor blacks, for whom the percentage living in extreme-poverty neighborhoods fell from 30.4 percent in 1990 to 18.6 percent in 2000. Paul A. Jargowsky,

“Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s,” Brookings Institution Center on Urban and Metropolitan Policy, May 2003.

¹⁷ Congress suspended the one-for-one replacement requirement in annual appropriations acts beginning in 1995 and repealed it permanently in the Quality Housing and Work Responsibility Act in 1998.

¹⁸ As subsequently modified by QHWRA, this requirement states that agencies must identify developments with more than 250 units and a vacancy rate of more than 15 percent (reduced to 12 percent in 2009) that are “distressed” (not defined), cannot be made viable for the long term through a “reasonable” plan, and would cost more to modernize and operate than the cost of providing vouchers to the remaining tenants.

¹⁹ See Rod Solomon, “Public Housing Reform and Voucher Success: Progress and Challenges,” Brookings Institution, 2005, p. 15.

²⁰ Congress first authorized MTW as part of the same appropriations act that required the demolition of large, distressed projects. Twenty-nine agencies (administering about 120,000 public housing units) currently participate in MTW, which seeks to promote innovative housing policies by allowing agencies to operate their voucher and public housing programs without regard to many federal statutes. A number of large agencies that in the mid-1990s had some of the most distressed public housing, such as Chicago, Atlanta, Pittsburgh, New Haven, and Baltimore, participate in MTW. Their ability under MTW rules to use voucher funds to rehabilitate public housing made tens of millions of dollars available to their public housing programs, at times by substantially reducing the number of families receiving housing assistance. Recent changes in voucher funding policies would prevent this.

The flexibility MTW provides creates other risks beyond reductions in the number of families served. Many of the policies that MTW allows agencies to test could have adverse effects on vulnerable families, such as alternative rent schemes that require sharply higher payments from some tenants and time limits that cut off subsidies even for working poor families who cannot remain in their homes without assistance. For further discussion of MTW and efforts to expand it while adding protections for tenants, see Barbara Sard and Will Fischer, “Bipartisan Legislation Would Build on Housing Voucher Program’s Success,” <http://www.cbpp.org/5-4-07hous.htm>, p. 6.

²¹ More than 25,000 of the new units planned would be for sale rather than rent; about 7,000 of these would be public housing homeownership units. Some cities have bucked the national trend and replaced *all* of the public housing units demolished as part of HOPE VI projects with equally affordable units. The figures in the text and this note are based on HUD data for HOPE VI demolition and revitalization grants through 2006, updated with the planned activities of FY2007 HOPE VI grantees as detailed in HUD press releases dated March 20, 2008. (Units proposed to be rehabilitated rather than newly-constructed generally are excluded to avoid double-counting existing public housing units that are not demolished.) HUD has awarded about 57,000 new vouchers to offset part of the loss of public housing. See n. 32 below.

²² For a detailed discussion of the House bill (H.R. 3524) and the evidence concerning HOPE VI, see Barbara Sard and Leah Staub, “House Bill Makes Significant Improvements in ‘HOPE VI’ Public Housing Revitalization Program,” Center on Budget and Policy Priorities, <http://www.cbpp.org/1-16-08hous.htm>.

²³ Congress first required HUD to assess public housing management in 1990. Under the Clinton Administration, HUD shifted from a self-certification-based system to one in which HUD contractors conduct independent reviews of housing conditions. Despite generally more aggressive oversight, HUD’s efforts have been inconsistent and not always effective. A few of the agencies that have been poor performers for decades — such as New Orleans and Detroit — are still under HUD administrative control, having shown insufficient improvement to regain independence. HUD has failed to implement a key QHWRA provision that requires it to petition a court to appoint a receiver if HUD’s administrative control fails to make sufficient progress in a two-year period. Solomon, n. 19 above, pp. 5, 52.

²⁴ At the beginning of fiscal year 2007, 6.2 percent of agencies (197), managing slightly less than 6 percent of units (71,391), were considered “troubled” under HUD’s management assessment system. Department of Housing and Urban Development, “FY 2007 Performance and Accountability Report,” p. 188. (These are the most recent data available.) In 1996, using a somewhat different assessment system, fewer agencies (65) were considered troubled, but they managed far more units, both in absolute numbers (199,000) and as a share of the stock (16 percent). Sandra J. Newman and Ann B. Schnare, “‘...And a Suitable Living Environment’: The Failure of Housing Programs to Deliver on Neighborhood Quality,” *Housing Policy Debate* 8(4): 703-741, at p. 716.

²⁵ In addition to underfunding operating subsidies, Congress in 2002 discontinued funding for the Public Housing Drug Elimination Program (PHDEP), which funded a broad range of youth services and other anti-drug and anti-crime programs in public housing developments. The program had received \$309 million in 2001. As result, housing agencies were forced either to divert funds from their operating subsidies to support programs that had been funded through PHDEP, find funding from other sources, or cut the programs.

²⁶ In 2000, 57 percent of public housing units were in developments more than 30 years old. James G. Stockard, Jr., *et al.*, *Public Housing Operating Cost Study* (Cambridge, MA: Harvard University Graduate School of Design, 2003), http://www.gsd.harvard.edu/research/research_centers/phocs/documents/Final%206.12.pdf. Since 2000, some of the oldest units have been demolished, while others have aged into the “more than 30 years old” category. HUD has reported that demolished units are nine years older than other units, on average. HUD, “Seventh Annual Report to Congress on Public Housing and Rental Assistance Programs,” 2008, p. 31.

²⁷ Meryl Finkel *et al.*, *Capital Needs of the Public Housing Stock in 1998: Formula Capital Study*, Abt Associates, prepared for U.S. Department of Housing and Urban Development, January 2000. See Part B of the Technical Appendix for an explanation of how we projected current needs based on the 1998 estimates.

²⁸ U.S. Government Accountability Office, *Distressed Conditions in Developments for the Elderly and Persons with Disabilities and Strategies Used for Improvement*, GAO-06-163 (2005). GAO’s criteria included resident and census tract income levels as well as developments’ age, physical condition, and vacancy rate. Using more streamlined criteria, the Urban Institute estimated that, as of 2003, developments with between 47,000 and 82,000 units met a definition of “severely distressed,” which amounts to between 4 and 7 percent of the stock. Margery Austin Turner *et al.*, *Estimating the Public Costs and Benefits of HOPE VI Investments: Methodological Report* (Washington, DC: Urban Institute, 2007), http://www.urban.org/UploadedPDF/411497_cost_benefits_hope_VI.pdf.

HUD performance reports indicate that the number of public housing units has fallen by more than 50,000 units since 2003. Many of these are likely among the units that GAO and the Urban Institute had identified as severely distressed. Some other units have become severely distressed during this period, but we do not have enough information to know whether the current number of severely distressed units is above, below, or roughly the same as those earlier estimates.

²⁹ Housing agencies are generally required to charge tenants no more than 30 percent of their income for rent and utilities (up to a utility allowance set by the housing agency), but they have discretion to institute certain policies that result in higher charges on tenants. For example, they can establish minimum rents of up to \$50 a month for tenants with little or no income or establish fees for services such as parking. Many agencies have taken such measures in recent years to help meet expenses. In addition, housing agencies facing shortfalls sometimes delay adjustments in utility allowances when utility rates increase, leaving tenants to bear the full burden of charges above the allowance for a period of time. (Agencies are required to adjust the allowances to reflect major rate increases, but HUD enforcement of this requirement is lax.)

³⁰ In a letter dated July 2, 2008 responding to a Congressional inquiry, HUD provided data on approvals of demolition or disposition of public housing units from FY2000 and pending applications.

³¹ Two other changes could further accelerate the loss of public housing. First, in 2006 HUD issued regulations implementing provisions from the 1998 QHWRRA legislation requiring housing agencies to convert certain developments to vouchers, and providing them added authority to convert others voluntarily. Second, the new “asset management” framework discussed in the text above will require agencies to assign costs to particular developments and make it more difficult for them to use revenues from one development to subsidize another development. As a result, it may force agencies to remove less viable developments from their stock.

³² The figure of a net loss of 104,000 public housing units includes planned demolition and replacement under grants funded through FY2007. See n. 21. A statement submitted by HUD to the House Financial Services Committee on June 21, 2007 indicates that 56,524 tenant-based vouchers “have or will be provided” as replacement housing under HOPE VI. It is not clear what time period this figure covers. From the perspective of overall changes in the public housing stock, not limited to HOPE VI-related changes, vouchers were awarded for about 100,000 of the 165,000 public housing units demolished or otherwise removed and not replaced with other public housing between 1995 and 2008 (see n. 14 above), based on HUD data published in the Federal Register.

³³ Meryl Finkel and Larry Buron, “Study on Section 8 Voucher Success Rates, Volume I,” U.S. Department of Housing and Urban Development, 2001. This is the most recent large-scale study of voucher success rates.

³⁴ Robin E. Smith and Kadija Ferryman, “Saying Goodbye: Relocating Senior Citizens in the HOPE VI Panel Study,” Urban Institute, 2006.

³⁵ Housing agencies that have used federal funds to renovate public housing developments are typically required to ensure that 5 percent of the units in the development are accessible to people using wheelchairs and that an additional 2 percent of units are accessible for persons with hearing or visual disabilities. Public housing providers must also make “reasonable modifications” (e.g., installing grab bars in showers or a ramp into a building) if this does not amount to an undue financial and administrative burden. About 40 percent of public housing units in developments that are not set aside for seniors and people with disabilities have three or more bedrooms; in contrast, only 26 percent of private rental units (at all price ranges) are this large. U.S. Census Bureau, “2005 AHS National Detailed Tables: Size of Unit and Lot,” <http://www.census.gov/hhes/www/housing/ahs/ahs05/ahs05.html>.

³⁶ Having five or more people in a family reduced the probability of success in using a voucher by seven percentage points in 2000. Meryl Finkel and Larry Buron, “Study on Section 8 Voucher Success Rates, Volume I,” 2001. Such larger families have a higher incidence of housing problems than smaller families, so it is particularly important to have programs that effectively meet their needs. For example, HUD tabulations of 2000 Census data indicate that 89 percent of non-elderly renter households with 5 or more people and incomes under \$20,000 had one or more housing problems, compared to 75 percent of all such households.

No data are available on the use of vouchers by people with physical disabilities, but anecdotal reports suggest that they have limited success, particularly in areas where the housing stock largely predates the accessibility requirements that apply to housing constructed or substantially rehabilitated since 1988. (Overall, people with disabilities who are not also elderly — many of whom have mental disabilities that do not require special unit characteristics — are the most successful at using vouchers of any demographic group studied. The authors speculated that this higher rate of success may reflect special assistance they received.) Research on problems with relocation from distressed public housing being demolished as part of HOPE VI revitalization projects highlighted the difficulties large families faced in using vouchers successfully, particularly if they included a person with disabilities (as many did). Mary K. Cunningham, Susan J. Popkin, and Martha R. Burt, “Public Housing Transformation and the ‘Hard to House,’ ” Urban Institute (June 2005).

³⁷ In addition to the 51 percent of households with a head or spouse who is “elderly” or has disabilities, 13 percent of other households include an additional adult who is elderly or an adult or child with disabilities, such as a grandmother who resides in a 3-generation household. U.S. Government Accountability Office, “Distressed Conditions in Developments for the Elderly and Persons with Disabilities and Strategies Used for Improvement,” GAO-06-163 (2005).

³⁸ About 530,000 public housing households — 51 percent of the estimated 1,040,000 resident households — have a head or spouse who is elderly (62 or over) or is less than 62 and has disabilities. (This figure is somewhat higher than the figure of 500,000 such households used by GAO because we estimate that 1,040,000 units are now occupied, while GAO assumed that approximately 1 million units were occupied in 2005. Some of the difference may be real, and some likely is due to more complete reporting (and our data-gathering from larger agencies in the MTW demonstration whose occupancy data was not reported in HUD’s RCR system.)

According to GAO (see the note above), 47 percent of elderly or disabled households — about 249,000 using our larger occupied unit count — live in senior developments, in which the majority of the occupants are elderly or have disabilities or all of the units have no more than one bedroom. An additional 13 percent — or approximately 69,000 households — live in general occupancy developments that have special buildings set-aside for elderly or disabled households. No data are available to determine how many of these 69,000 households live in the special buildings. The methods we used to identify senior developments are described in the Technical Appendix.

³⁹ For example, the Miami Dade Housing Agency converted a traditional senior building into the Helen Sawyer Plaza, a 104-unit assisted living facility for low-income seniors. The facility provides services such as meals, transportation, and physical therapy, and costs 68 percent less than a traditional nursing home. Similarly, Holgate House in Portland, Oregon provides nursing, transportation, and other support services for elderly public housing residents at less than 20 percent of the cost of a nursing home facility. See <http://www.hud.gov/offices/pih/pihcc/innovationsmodels.cfm>, accessed September 4, 2008.

⁴⁰ Using criteria related only to the parent’s education and employment status combined with longevity in public housing, Cunningham et al (n. 36 above) estimated that such multiple-barrier households represented 10 percent of the households in severely distressed developments.

⁴¹ Barbara Sard, “The Role of Housing Providers in an Era of Welfare Reform,” in Barbara Sard and Amy S. Bogdon, eds., *A Place to Live, a Means to Work: How Housing Assistance Can Strengthen Welfare Policy* (Washington DC: Fannie Mae Foundation, 2003), pp. 118-120. (Copies of the volume are available on request from the Center.)

⁴² Howard S. Bloom, James A. Riccio and Nandita Verma, *Promoting Work in Public Housing: The Effectiveness of Jobs-Plus, Final Report*, MDRC, 2005. The Jobs-Plus sites were large projects (300 – 500 units each) in high-poverty neighborhoods, and many residents had barriers to work or skill deficits that would limit earnings. The study analyzed the impact of employment-related services and financial incentives on all able-bodied working age residents of the “treatment” sites. Former welfare recipients did have a statistically significant increase in earnings, but the amount was small (\$761 per year) and not as substantial as for other residents. A number of studies found that welfare recipients who are public housing residents (as well as voucher recipients) benefit more from well-designed employment interventions than families without housing assistance. See James A. Riccio, “Subsidized Housing and Employment,” in Nicolas P. Retsinas and Eric S. Belsky, eds., *Revisiting Rental Housing: Policies, Programs and Priorities* (Washington DC: Brookings Institution, 2008), pp. 205-207.

⁴³ For the third of these units that are in non-metropolitan areas, there may be little rental stock available where vouchers can be used. See tables 2B in Part C of the Technical Appendix.

⁴⁴ Deborah Devine et al., *Housing Choice Voucher Location Patterns: Implications For Neighborhood Welfare*, U.S. Department of Housing and Urban Development, January 2003.

⁴⁵ Larry Orr, et al, *Moving to Opportunity for Fair Housing Demonstration Program: Interim Impacts Evaluation*, Abt Associates and National Bureau of Economic Research, prepared for U.S. Department of Housing and Urban Development, September 2003.

⁴⁶ Only a small number of states and localities prohibit discrimination against holders of housing vouchers. The National Housing Law Project has a list of states and localities that as of 2005 prohibit discrimination against holders of housing vouchers, at

http://www.nhlp.org/html/sec8/source_of_income/2005%20Source%20of%20Income%20Statutes%20%5B3.28.05%5D.pdf.

⁴⁷ National Fair Housing Alliance, “2008 Fair Housing Trends Report,” April 8 2008, <http://www.nationalfairhousing.org/FairHousingResources/tabid/2555/Default.aspx>. Complaints regarding discrimination in rental housing, on race and other grounds, are the most common type of housing discrimination complaints.

⁴⁸ Stuart S. Rosenthal, “Where Poor Renters Live in Our Cities: Dynamics and Determinants,” *Revisiting Rental Housing: Policies, Programs, and Priorities*, Joint Center for Housing Studies and Brookings Institution Press, 2008.

⁴⁹ For several reasons, this figure is significantly below the average cost of vouchers, which we estimate at \$8,062 in 2009 (including fully funded administrative fees). Public housing tends to be located in areas where rents are lower than in the areas where vouchers are used; households living in public housing tend to be smaller than voucher households; and public housing tenants have somewhat higher incomes than voucher tenants, on average.

⁵⁰ Like the \$22 billion estimate in the text above, the \$6,520 figure would cover full repairs to existing building features but not major reconfiguration of units or replacement with new buildings. It assumes that 80 percent of the public housing capital backlog would be funded through borrowing, and 20 percent would be funded through up-front grants. For a description of the methodology and assumptions we used to develop these estimates, see Part B of the Technical Appendix.

The estimate that adequately funded public housing would be five percent less expensive than the cost of providing vouchers to the same population (or eight percent less expensive including transition costs) uses inflation-adjusted total costs, without any adjustment to reflect the fact that public housing preservation partly funded through upfront grants would require a larger upfront investment. If costs were compared using net present value — that is, by applying a discount rate to future costs — public housing preservation would be three percent less expensive than replacement vouchers (or seven percent less including transition costs).

⁵¹ Since the cost estimates in the text only look at federal costs, they do not include the value of the land on which public housing is located on either side of the ledger (i.e., as a cost of maintaining public housing or as a source of revenue upon disposing of it). The local agency generally owns the land, so that agency, not the federal government, would receive any financial benefit from its sale.

⁵² San Diego Housing Commission, “Repositioning of the San Diego Housing Commission’s Public Housing Portfolio,” Housing Authority Report. November 9, 2006.

⁵³ See generally, Larry Orr et al., *Moving to Opportunity Interim Impacts Evaluation* (Washington, D.C.: U.S. Department of Housing and Urban Development, 2003); Margery Austin Turner and Xavier deSouza Briggs, “Assisted Housing Mobility and the Success of Low-Income Minority Families: Lessons for Policy, Practice and Future Research,” Urban Institute, March 2008; and Testimony of Dr. Susan J. Popkin, June 21, 2007, http://www.urban.org/UploadedPDF/901088_HOPE_VI.pdf.

⁵⁴ Jennifer Comey, “HOPE VI’d and On the Move,” Urban Institute, June 2007, p. 5.

⁵⁵ Specific health benefits have been found in the Moving to Opportunity Demonstration (see note 53) but not in the HOPE VI research, possibly due to the shorter period of time that had elapsed after relocation for the latter group of families. Among the MTO movers, significant improvements in adult mental health were found only for families that moved to low-poverty neighborhoods initially. Turner and Briggs note that the mental health gains for adults and girls who moved to low poverty areas as part of MTO “are on par with mental health gains typical under the most effective psychotherapeutic treatments available,” and that improved maternal mental health could have substantial benefits for child development. Margery Austin Turner and Xavier deSouza Briggs, “Assisted Housing Mobility and the Success of Low-Income Minority Families: Lessons for Policy, Practice and Future Research,” Urban Institute, March 2008, p. 5.

⁵⁶ Susan J. Popkin, Tama Leventhal, and Gretchen Weismann, “Girls in the ‘Hood: The Importance of Feeling Safe,” Urban Institute, March 2008.

⁵⁷ Both the MTO and HOPE VI research have found a significant reduction in problem behaviors among adolescent girls.

⁵⁸ Margery Austin Turner et al., “Severely Distressed Public Housing: The Costs of Inaction,” Urban Institute, March 2007; Lawrence J. Vale, *Reclaiming Public Housing* (Cambridge MA: Harvard University Press, 2002), pp. 398-399; Newman and Schnare, n. 10 above.

⁵⁹ This research was based on data from the National Survey of America’s Families (NSAF). It also finds that in *non*-metropolitan areas, youth behavior and school engagement and a number of indicators of quality adult-child interaction do *not* deteriorate as the poverty rate of the tract rises, in contrast to central city areas. Margery Austin Turner and Deborah R. Kaye, “How Does Family Well-Being Vary Across Different Types of Neighborhoods?”, The Urban Institute, April 2006, pp. 13, 20.

⁶⁰ Experts debate whether the threshold most likely to correlate with indicators of social distress is a poverty rate of 30 percent or 40 percent. We have chosen the lower threshold here because of mounting evidence that neighborhoods in these two categories are quite similar in important ways. For example, in 2000 the shares of (a) adults without a high school diploma and (b) single-mother families with children are nearly as great in neighborhoods with “high poverty” (i.e., with poverty rates of 30-40 percent) as in neighborhoods with “extreme poverty” (poverty rate of 40 percent or more). Also, the “high poverty” neighborhoods were distinctly different on both indicators than the metropolitan areas as a whole. G. Thomas Kingsley and Kathryn L.S. Pettit, “Have MTO Families Lost Access to Opportunity Neighborhoods Over Time?” Urban Institute, March 2008, p. 3.

⁶¹ Federal policy already treats developments of 250 or fewer units differently from others, requiring housing agencies to analyze whether the developments are so distressed that they must be converted to vouchers. See 24 C.F.R. Part 272.

⁶² Four-fifths of these 86,000 units are in majority-minority areas, and three-fifths are in areas where more than *80 percent* of residents are black or Hispanic. These facts are particularly important in light of the history of racial segregation in the public housing program. If government policies were responsible for locating particular public housing developments in segregated neighborhoods, government agencies may have the legal obligation to create housing opportunities in non-segregated areas. Regardless of whether there is potential legal liability for past actions, public housing agencies and HUD must “affirmatively further fair housing” going forward. This duty may affect decisions made about the future of such projects. See Cara Henrickson, “Racial Segregation and Income Deconcentration in Public Housing,” *Georgetown Journal on Poverty Law and Policy*, Vol. 9, Winter 2002, p. 44 (on historical patterns of segregation) and p. 53 (on current segregation).

⁶³ Currently, the operating subsidy regulations require that the freeze continue through 2009, and do not specify how rent revenues will be calculated in 2010 and later.

⁶⁴ It may be impractical for HUD to review all such preservation plans directly, particularly because few HUD staff have the necessary expertise in housing development and financing. State housing finance agencies have the necessary skills, and already are responsible for allocating some of the types of funds (such as Low Income Housing Tax Credits) that public housing agencies may seek as part of their preservation strategy. HUD already contracts with many state housing finance agencies to oversee subsidy contracts with private owners. Only a few state agencies administer public housing directly, which would pose a potential conflict in taking on this additional function. HUD also could contract with private entities.

⁶⁵ In cases where the agency must make payments on previous borrowing through mechanisms such as the Capital Fund Financing Program, funding should be adequate to cover those payments, regardless of whether it would otherwise be capped at a lower level.

⁶⁶ The federal government would not be legally obligated to continue the funding to cover debt payments, but if federal credit insurance is provided, the federal government could be obligated to repay the loans if housing agencies default. Even if credit insurance is not provided, defaults could have serious adverse consequences. Tenant could be largely protected from the consequence if loans were accompanied by foreclosure protections like those proposed in this analysis, but lenders would likely be reluctant to make similar loans in the future.

⁶⁷ The original construction of public housing was funded through grants and loans from the federal government, not through private sector mortgages.

⁶⁸ The 2001 level used to calculate the 1 percent decline in operating funding includes funding for the Public Housing Drug Elimination Program, which was eliminated in 2002. The operating fund can be used to support anti-crime activities similar to those funded under the DEP, although agencies are not required to use funds for such activities.

⁶⁹ In addition, if turnover is very rapid at developments with large numbers of project-based vouchers, an agency could find that most or all of its tenant-based vouchers are being allocated to families who are leaving units with project-based vouchers. This could provoke opposition from low-income families on the voucher waiting list, who would likely resent being effectively forced to spend a year living in an undesirable project-based voucher development in order to gain access to a tenant-based voucher.

⁷⁰ Developments that are converted to project-based vouchers would often be mortgaged, so it also would be important that in the event of foreclosure they be subject to the same protections against tenant displacement or loss of affordability as suggested above for mortgaged public housing developments.

⁷¹ See Part B of the Technical Appendix for an explanation of our replacement cost estimates. The 86,000 units are those in large (250 or more units) general occupancy developments in neighborhoods outside of New York City where 30 percent or more of the residents have incomes below the poverty line. See pp. 19-20 above.

⁷² See Barbara Sard and Leah Staub, "House Bill Makes Significant Improvements in 'HOPE VI' Public Housing Revitalization Program," Center on Budget and Policy Priorities, <http://www.cbpp.org/1-16-08hous.htm>.

⁷³ Congress should provide adequate funding for both these new vouchers (which would be substantially less expensive than the cost of building new replacement housing) and project-based vouchers to replace other developments that agencies seek to withdraw from the public housing program voluntarily. If funding turns out to be inadequate to cover both types of developments, Congress should direct HUD to prioritize allocating vouchers to developments where conversion is required and should defer approval of further voluntary conversion of public housing until the following year. It will also be important that when developments are replaced with tenant-based vouchers, *all* of the units in the development should be replaced, not just those that happen to have been occupied in the period immediately before they were lost.