

# Saving America's Public Housing

Prepared by  
Public Housing  
Authorities  
Directors  
Association

*Why It Matters and What We Can Do*



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**Nancy Walker**

PHADA President

**Jon Gutzmann**

Task Force Chairman

**Ted Van Dyke**

Writer

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**PHADA Staff:** Timothy G. Kaiser, Executive Director; Jim Armstrong, Policy Analyst; Kathi Whalen, Policy Analyst; Crystal Wojciechowski, Policy Analyst; Jonathan Zimmerman, Policy Analyst; Blake Stenning, Director of Communications; Norma Bellew, Director of Membership; Stephanie White, Director of Meetings; Godfrey Swindall, Financial Assistant/Production Manager; Gwen Lyda, Administrative Assistant



**Public Housing Authorities  
Directors Association**

511 Capitol Court, NE  
Washington, DC 20002-4937  
Phone: 202-546-5445  
Fax: 202-546-2280  
[www.phada.org](http://www.phada.org)

**The public housing program is a contract between the federal government and housing authorities. As their part of the contract, housing authorities provide decent, safe and sanitary apartments at artificially low rents, affordable to extremely low-income families. The federal government's part of the contract is to pay the difference between the revenue earned through the artificially low rents and the actual cost of maintaining the units and administering the program.**

Unfortunately, for many years, the federal government has failed to fulfill its responsibilities under this contract. Currently, PHAs are only receiving about 70 percent of the amount HUD has determined they need. This chronic underfunding has created a crisis, in which 250,000 units have already been lost from the program and more are disappearing every year.

PHADA believes there needs to be a plan to preserve the remaining public housing units during this time of continuous funding shortfalls. The plan must consist of ways of supplementing the insufficient, congressionally appropriated funds, proportional to the amount of the funding shortfall. With the federal government only partially funding the program, PHAs should be required to comply only partially with certain program regulations.

PHADA's proposal to increase revenue would be triggered when appropriations fall below 90 percent of the need but is temporary because the measures authorized by the trigger are not renewed if funding rises above the 90 percent threshold. Program changes are based on the concept of proportionality, as the additional revenue cannot exceed 100 percent of a PHA's annual funding requirement. Importantly, residents are protected by hardship provisions similar to existing ones.

When the federal government fails to fulfill its funding responsibilities under the public housing contract, PHADA proposes that Congress authorize PHAs to:

- 1. Increase the minimum rent.**
- 2. Eliminate utility reimbursements.**
- 3. Increase the amount of income charged as rent up to a maximum of 40 percent.**
- 4. Allow a portion of the program to house income eligible families at specific income strata.**
- 5. Eliminate or reduce exemptions and deductions.**
- 6. Implement specified user fees.**
- 7. Waive certain regulations.**

*The purpose of PHADA's proposal is to put a stop to the unnecessary loss of units and preserve the 1.1 million remaining public housing apartments, so they can continue to serve low and extremely low-income families into a future when the public housing contract is honored by HUD and Congress once again. Without increasing today's insufficient funding, PHADA believes the inevitable alternative is far fewer units available to house the nation's low-income population.*

# Federal Government Funding Levels Break Contract with Housing Authorities

*Preserving Nation's Over One Million Remaining Public Housing Units Requires New Revenue Sources Based on Proportionality*

At a time of severe and long-standing underfunding of the public housing program, due to HUD's failure to ask for and Congress's failure to appropriate adequate amounts, the Public Housing Authorities Directors' Association (PHADA) proposes that housing authorities enter into a new arrangement with the federal government. Under this new arrangement, the housing authority obligation to administer the public housing program would be proportional to the federal government's fulfillment of its responsibility to fund the program. This paper will describe the steps Congress should authorize to enable housing authorities to recover their lost revenue during periods when federal funding falls well short of its obligation.

## The Public Housing Contract

The public housing program is designed to allow extremely low-income families and individuals to rent decent, safe and sanitary apartments at rents they can afford. The rents are affordable because they are based on 30 percent of a resident's adjusted income. No matter how low that income is, families can afford to pay the rent. Rents set under these conditions, though, have no connection to the actual cost of managing the units.

Public housing rents, based on 30 percent of the income of low and extremely low-income families, are not sufficient to pay for the upkeep and maintenance of the units and the administration of the program.

*The public housing program is designed to allow extremely low-income families and individuals to rent decent, safe and sanitary apartments at rents they can afford.*



**Public housing rents... are not sufficient to pay for the upkeep and maintenance of the units and the administration of the program.**

As a result, the federal government has entered into a contract with housing authorities. In return for housing low and extremely low-income families at artificially reduced rents, the federal government promises to make up the difference between the revenue from rents and the actual cost of providing the housing. Each year, HUD gives a subsidy to every eligible housing authority to make the extra funding available it needs to be able to house income eligible families at the low rents they are charged.

In order to provide the correct amount of subsidy, the federal government has determined what it costs each housing authority to administer the public housing program. It hired the best people in the country, independent of both HUD and the housing authorities, to come up with the right amount. The Harvard University Graduate School of Design spent four years studying the day-to-day costs of maintaining the apartments and administering the program's rules and regulations. It collected the costs on 17,000 properties owned by profit motivated private sector owners serving a similar population.

Using a regression analysis, it was able to apply these private sector costs to every housing authority in the country. As a result, HUD knows what every PHA in America needs to keep up its units and manage the program. When it prepares its budget each year, it calculates this amount, aggregates it, and comes up with a total for the program across the United States.

In addition to day-to-day costs, public housing properties have long-term capital requirements. Roofs must be replaced, boilers exchanged, wiring and plumbing kept up to date, siding maintained and roads and parking lots paved. These capital costs are above and beyond the day-to-day costs of the program. Once again, HUD hired the best, independent consultants it could

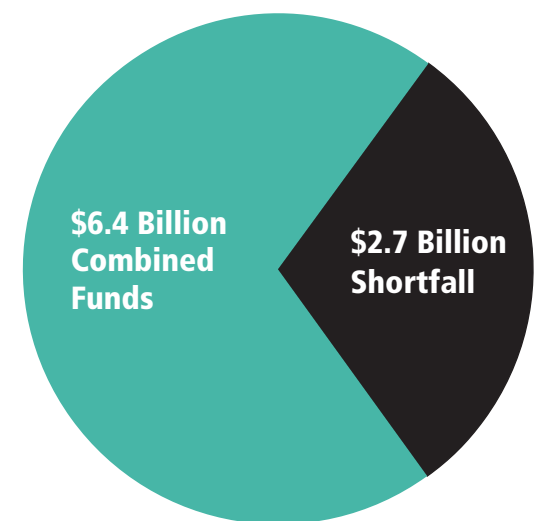
to examine these capital needs. Abt Associates carried out an actual inspection of a statistically valid sample of public housing apartments and properties to determine the annual, per unit, capital cost of maintaining the public housing program. It published this figure, called the annual accrual, which came to \$3,155, in the 2010 report it submitted to HUD.

Thus, as with day-to-day operating costs, HUD knows the amount it costs the public housing program each year to cover its capital needs. When this amount is added to the operating total, the sum equals the money needed each year to maintain and preserve the more than one million public housing units which are so vital to this country. Once the rent is collected, the difference is the amount Congress and HUD need to appropriate to housing authorities in order to fulfill their part of the public housing contract.

### **There Is a Deep, Chronic Shortfall in the Funding Needed to Preserve the Public Housing Program**

Unfortunately, despite the time, effort and money spent in deriving these costs, public

#### **2016 Total Funding Shortfall**



*The combined total operating and capital funds for 2016 comes to 70% of what is needed. This is the 5th straight year of similarly low prorations.*

## Deep, Chronic Public Housing Underfunding

Year	Public Housing Operating Fund	Public Housing Capital Fund
2012	\$3.941 billion – 80.8% proration	\$1.875 billion
2013	\$4.054 billion – 81.9% proration	\$1.785 billion
2014	\$4.399 billion – 88.7% proration	\$1.875 billion
2015	\$4.400 billion – 84.0% proration	\$1.875 billion
2016	\$4.500 billion – 84.0% proration	\$1.900 billion

housing has suffered from deep, chronic, underfunding for many years. Only twice in the past 12 years has the operating fund exceeded 90 percent of the cost of the program. The capital fund has fared even worse, falling below 90 percent every year during this entire period and now barely reaching 50 percent of the need. The total capital fund shortfall is \$15 billion during this 12-year period, for which the \$4 billion in stimulus funding and the now defunct HOPE VI program, helpful as they were, did not make much of a dent. All in all, Abt Associates found in 2010 that there was a \$26 billion capital backlog in the public housing stock.

In 2016, the operating fund of \$4.5 billion resulted in an 84 percent proration, while the \$1.9 billion capital fund was just half of the \$3.79 billion needed. There are fewer capital dollars in absolute terms being appropriated now than 20 years ago. The combined total comes to a 70 percent proration in 2016. That is \$2.7 billion less than is required. This was the 5th straight year of such a similarly low proration.

It does not take a genius to realize that the program is going to run into the ground by funding that just exceeds two-thirds of the amount the country's best minds have concluded is needed to manage public housing. Indeed, deterioration that has occurred is the cumulative effect of so many years of neglecting the funding realities. About 250,000 public housing units

have been lost from the program's peak size of approximately 1,350,000. Although there are other reasons besides money as well, including building design and regulations such as the abandoned federal preferences, these missing apartments are the price paid for HUD's not requesting and Congress's not appropriating the money needed to carry out their portion of the public housing contract.

That is a huge number of units that have been permanently lost to assist low-income Americans. Some were replaced by tenant protection vouchers, but many of these too have disappeared. It also does not take a genius to realize that continued funding at these reduced levels can lead to future losses of a comparable magnitude. In other words, current funding levels have created a crisis that is threatening the continued existence of a substantial segment of the public housing program. Additional revenue is necessary now to preserve the program for the continued benefit of future generations of Americans who will need these units just as desperately as they are needed today.

### Preserving Public Housing Is in the National Interest

Public housing is an indispensable part of the American safety net. More than half of its 1.1 million units serve elderly and disabled residents, while most of the able-bodied residents work. Many elderly Americans,

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***Due to Congressional inaction, many units have been lost and more will be gone unless there is a solution to the funding crisis. Once they are gone, it is hard to see under what circumstances they could ever be rebuilt.***

often single women, who have held jobs or been homemakers all their lives and have nothing but social security, can live in dignity by virtue of a decent apartment in a public housing development. Many of these senior developments do not conform to popular stereotypes of monolithic apartment blocks in blighted, urban neighborhoods, but are attractive buildings located in small towns, cities and suburbs across the United States. There are 3,000 public housing authorities after all. Without this resource, the country would be turning its back on citizens who have given their all and now need assistance in their old age.

It is also very hard for the disabled to find adequate housing. Five percent of public housing is handicap accessible and admission to elderly developments is open to the disabled, unless specifically designated as senior only. Thus, public housing is an invaluable resource for those Americans

who must deal with extraordinary challenges and often need a helping hand. Most of the rest of the residents are working, but are just not quite self-sufficient yet.

These public housing units already exist. They do not need to be built. They are not some dreamer's hope of a potential resource to assist these communities. The country already has them. It just needs to take care of them and make sure they can continue to be there for succeeding generations.

Public housing is also indispensable because it is located in places where it could never be built now. New York City, for instance, has 180,000 units of public housing. No one's wildest imagination could think that it would be possible to build 180,000 units of public housing in New York City today. What is true in New York is true in many other places as well. Factors such as cost, environmental concerns, minority concentration, affirmatively furthering fair housing and



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NIMBYism make the construction of new public housing units in many locations extremely difficult. Yet, these same locations are actually able to benefit from public housing because it has already been built. It must be preserved, though. Due to Congressional inaction, many units have been lost

and more will be gone unless there is a solution to the funding crisis. Once they are gone, it is hard to see under what circumstances they could ever be rebuilt.

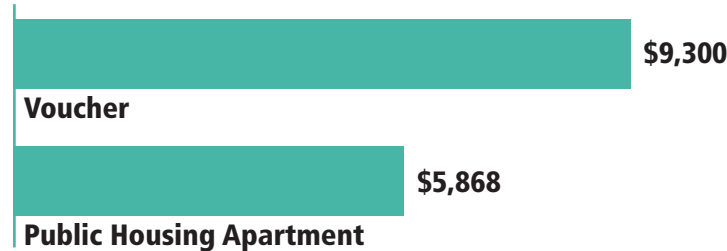
Public housing is also the cheapest form of assisted housing. Policymakers cannot just say “Let’s take the public housing money and put it into vouchers,” because at current funding levels, vouchers are more than 50 percent higher. A voucher averages \$9,300/unit/year compared to \$5,868 for a public housing apartment. Instead of having 1.1 million units of assisted housing, the nation would have something like 700,000. Many trends in the voucher program are leading to greater costs as well, such as small area Fair Market Rents (FMRs) and counseling low-income families to move to high-income neighborhoods.

Public housing is also quasi-permanent. Some of it has been in place for almost 80 years, and if well maintained could continue to serve low-income families for years to come. Quasi-permanence is a virtue, because it creates a stability that cannot be provided by vouchers. Vouchers are subject to the vagaries of markets, landlords, policies and funding, and one cannot be certain whether or how many of them will be there from one year to the next.

Affordable housing is an important issue, but it rarely rises to the level of public awareness and interest as the issue of homelessness. Homelessness is a challenge all across

## A Voucher Costs the Taxpayer Considerably More than a Public Housing Apartment

Average Cost/Unit/Year



the country, with no easily attainable end in sight. It is virtually impossible, though, to contemplate its eradication without the 1.1 million public housing units assisting the disabled, the elderly, single mothers and individuals with virtually no income. Conversely, homelessness would skyrocket if public housing were to disappear.

Thus, public housing is an indispensable housing resource and ensuring its preservation is in the national interest. At present, there is no plan to ensure the preservation of these units. HUD and Congress are funding the program in the 70–75 percent range year after year, with no end in sight. They are not fulfilling their contractual responsibilities. As a result, a significant number of units are lost each year.

PHADA believes very strongly that the Administration and Congress must develop a strategy to provide these units with the funding they need to be there for the country in the future. If HUD and Congress could fund these units at the level they know is necessary for their survival, there would be no need for additional steps to generate revenue and find cost savings. Unfortunately, at present, it is clear that the nation’s disadvantaged citizens cannot count on adequate federal funding. Therefore, in order to preserve these vital units, PHADA believes additional measures must be taken to keep the public housing program, which is in the national interest, viable into the future.

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*PHAs are asking for permission to change some of the regulations only when funding levels have fallen so low that following all the rules jeopardizes the ability to maintain the properties in decent, safe and sanitary condition.*

## **PHADA Proposes Proportionality as a Solution to Preserve the Public Housing Program**

The public housing program is at risk because Congress is not appropriating enough money to ensure the survival of the properties. This inadequate funding has become so chronic that a solution must be found or the country will lose this indispensable part of the safety net that assists the welfare of its low-income population.

There are two methods of remedying the program's funding shortfall. The first is to find additional sources of revenue to make up the difference between the federal funding level and the amount needed. The second is to reduce expenses to a point that the federal funding is sufficient to pay the program's costs.

PHADA proposes that Congress authorize housing authorities to alter certain program regulations on a temporary and proportional basis to increase revenue or reduce costs to maintain the program's long-term viability. This revenue is independent of Congressional appropriations and thus does not cost the government anything.

During a year when Congress fails to appropriate the funding to fulfill the public housing contract, PHAs will be permitted to make a number of changes to the regulations

### **Characteristics of Proportionality**

1. Proportionality is triggered when public housing funding falls below 90 percent of needed amount.
2. Changes are temporary and cease when funding returns to 90 percent level.
3. The amount of revenue increase is capped by each agency's funding shortfall.
4. Hardship provisions are in place to protect residents.
5. Authorized changes are voluntary to be enacted by each housing authority's publicly accountable Board.
6. Congressional appropriation levels are unaffected.

designed to raise a proportional amount of revenue.

The permissible changes would be triggered when federal funding fell below a specific level. This trigger would be reached when the combined operating and capital funds fell below 90 percent of their aggregate amount. As noted, every year HUD calculates the amount of operating funds each housing authority needs. It can also update the 2010 \$3,155/unit capital fund need by using an inflation index. When Congress appropri-



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ates less than 90 percent of its portion of the amount needed to arrive at the total, combined, program-wide sum of these two funds, the trigger allowing housing authorities to raise additional revenues by altering certain regulations would be pulled.

Please note that housing authorities through this proposal are not asking to change these regulations in and of themselves. Their goal is to preserve the program to the greatest extent possible. They are proposing to set off this trigger when funding is 10 percent below the amount Congress must appropriate to arrive at the level HUD and the best minds in the country have determined is needed to administer the program. PHAs are asking for permission to change some of the regulations only when funding has fallen so low that following all the rules jeopardizes the ability to maintain the properties in decent, safe and sanitary condition.

Secondly, housing authorities are only requesting the ability to increase revenue on a temporary basis. This proposal does not envision any permanent alterations to the program. Changes would be triggered by low funding levels, and they would be ended when funding levels reached, not full funding, but 90 percent of Congress's full funding levels.

Congressional appropriations are now almost always passed during the federal fiscal year in question. Given this fact and the need

to engage residents and other interested parties fully in any contemplated changes, agencies would be given until the end of the first federal fiscal year to enact any new measures.

As some of these measures might include changes to the rent structure, such as an increase in minimum rents, PHAs could enact them through the regular recertification process during the second federal fiscal year. All authorized changes would be required to cease at the end of third federal fiscal year.

In addition to this time limit, another cap will be set on these measures. HUD can notify each agency the amount of its shortfall, which would be equivalent to the difference between the amount it received (added to the rents) and 100 percent of the subsidy amount which HUD has determined is required. This shortfall sum would be the total an agency could earn in additional revenue through all the authorized new measures it decided to take. If this shortfall were \$100,000, then once the agency had reached the \$100,000 mark it would have to halt all its changes and return to the original program regulations. This halt would occur even if more time were allowed.

Once again, PHAs are not trying to change regulations in and of themselves in this proposal. The changes are designed to increase revenue to preserve the program for the future, and once the missing revenue has been made up, the program will return to normal.

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*often need a helping hand. Other public housing residents are working, but are just not quite self-sufficient yet.*

It is also important to note that existing hardship provisions for the current minimum rent requirement, would also apply to the measures authorized in this proposal. These hardship provisions protect residents if they are unable to pay the minimum rent, and they have been very effective in assisting residents during their financial difficulties.

All measures included in this proposal would be subject to decision-making by each local housing authority's Board of Commissioners. In other words, decisions that are right for each community would be made by community leaders. Almost all Boards of Commissioners are required to have a resident member. Other commissioners are generally appointed by the



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chief elected official and thus are accountable to the democratically elected political leadership. HUD has a thorough, open and transparent process that must be followed to make changes to the Admissions and Continued Occupancy Policy contemplated in this proposal. Residents have formal input and a vote on the Board; meetings are public, and decisions are made in the open. No community need take any of these steps unless they are right for its community.

It is possible that some residents may experience a temporary increase in their housing cost. As a result of HUD and Congress not fulfilling their contractual obligations, this temporary increase is necessary to make sure that the program will be available now and for future generations. The alternative to not increasing revenue is to continue the steady loss of units, so that, not long from today, hundreds of thousands of families which could have been assisted may be left without the housing they desperately need. The purpose of this proposal is not to increase burdens on residents; it is to make sure this vital national resource continues to be there for residents in years to come. It is far seeing legislation to save the public housing program for the country's neediest citizens.

In sum, PHADA proposes that when funding falls well below the needed amount, using a concept based on proportionality, Congress allow housing authorities to alter certain specific regulations on a temporary basis, limited as well by the amount of the funding shortfall, in order to increase revenue or cut costs to ensure that this vital housing stock be able to continue assisting low-income Americans into the future as it has since the inception of the program in 1937. ■

***The purpose of this proposal is not to increase burdens on residents; it is to make sure this vital national resource continues to be there for residents in years to come.***

# Proportionality: A New Public Housing Contract Under Conditions of Deep, Chronic Underfunding

## PHADA's Proposed Steps

It is not easy to make up a shortfall of \$2.7 billion. There may not be one individual policy change that will enable an agency to recoup its shortfall. For this reason, PHADA is proposing a number of different steps that housing authorities could take temporarily to increase revenue or reduce costs. A variety of different possibilities is also necessary, because a switch that might help an agency with, for instance, a tight housing market might not be effective in a community with a surplus of housing. Each city or town must be able to make the

## Proposed Temporary Measures to Counteract Funding Shortfall

Proposed Measure	Examples of Potential Revenue
1. Raise Minimum Rent	\$100 million at \$100 minimum rent
2. Increase Percent of Income Paid as Rent	\$600 million at 35%
3. Reserve Units for Income Eligible Families of Different Income Strata	\$60 million with 50,000 units serving 40-60% of Area Median Income
4. Eliminate or Reduce Deductions and Exemptions	\$200 million if all were eliminated
5. Eliminate Utility Reimbursement	\$400 million with 400,000 families
6. Authorize Specific User Fees	
Application Fee	\$5 million with a \$25 fee
Trash Removal Fee	\$80 million with 800,000 users at \$10/month
Parking	\$10 million with 100,000 users at \$100/year
7. Waive/Change Regulations	
Community Service	
Section 3	
Triennial Recertifications for Families	
Triennial REAC inspections	

choice that will allow it to be successful with the smallest effect on residents.

## 1. Increase the Minimum Rent

As described, public housing rent is based on 30 percent of a resident's adjusted annual income. Some residents report that they have no income and thus, with rent based on 30 percent of that amount, would pay no rent. Twenty years ago, Congress decided that it was not reasonable to expect residents to have zero income, and therefore, it established a minimum rent of \$50/month. Everyone, it reasoned, must have some income in order to live. As a fail-safe, though, Congress also included the requirement that an agency must put hardship provisions in place, which provide additional time and protections for residents who have trouble paying the minimum rent.

This policy has been in place for twenty years with virtually no problems. Paying a \$50 minimum rent is the equivalent of having an income of \$167/month or \$2,000 per year. The lowest paid TANF recipient would generally have revenue far exceeding that amount. In setting their minimum rents under this proposal, agencies could differentiate between fixed income residents, such as seniors, and younger, able-bodied ones.

During the past 20 years, the cost of living has increased, so \$50 then is similar to \$75 in 2016. In addition, during this 20-year period, the 39 Moving-to-Work (MTW) agencies, which are authorized to modify HUD regulations, have had the ability to increase the minimum rent, and about half of them have taken advantage of this opportunity. These include PHAs, such as Chicago and San Antonio, whose administrative and political leaders have included the highest officials of the land, such as Chicago Mayor Rahm Emmanuel and HUD Secretary Julian Castro.

Furthermore, Congress has recently authorized another 100 housing authorities to enter the MTW program. These agencies will all be able to alter their minimum rents, if it is appropriate for their locales.

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*Julian Castro, HUD Secretary*

To summarize, the current minimum rent has caused virtually no problems and has a hardship provision to protect residents. There has been no increase in the minimum rent for 20 years. Many agencies, which belong to the MTW program, have successfully raised their minimum rents under the leadership of some of the country's most important politicians. Congress has recently expanded the program. Reviewing all of these points, it seems clear that allowing all agencies to raise the minimum rent temporarily, because of a funding shortfall, is a sound and prudent policy to preserve the public housing program.

If all agencies raised their minimum rents to \$100/month, it could generate approximately \$100 million in revenue. Since this supplemental money is designed to replace a shortfall, agencies would not report it as rent for federal funding purposes. This principle would apply to other rent changes as well.

## **2. Eliminate the Utility Reimbursement**

Many public housing residents pay their own utility bills to the utility companies. In these situations, housing authorities give the tenants an utility allowance, based on average consumption for the apartment size. After the PHA calculates the rent, it subtracts out the utility allowance, and the remainder is the actual rent a resident pays. For instance, if the rent were \$180/month and the utility allowance were \$150/month, the resident would pay the housing authority \$30/month. The remaining \$150 would be used to pay the utility bills.

Many residents report very low incomes; so low they are required to pay the \$50 minimum rent. In the example above, the \$150/month utility allowance is higher than the \$50 minimum rent. In this case, the resident cannot receive the \$150/month utility allowance simply by subtracting the allowance from the rent and paying the PHA the lower amount. When \$150 is subtracted from \$50, it means that the resident now pays no rent and is entitled to a \$100/month payment from the housing authority.

Thus, each month housing authorities make significant payments to many of their residents through this policy. If utility allowances average over \$150/month (true in the voucher program) then not only would virtually everyone receiving a utility allowance and paying a minimum rent receive a check from the government, but practically everyone whose adjusted income is \$6,000/year or less would also receive one. That is a significant number of residents and a significant amount of money. Data from the Section 8 program show that the average payment to participants exceeds \$1,000/year.

PHADA believes that at a time when there is a deep, chronic underfunding of the public housing program, ceasing the practice of paying residents to live in its developments must be an option open to PHAs. The Administration and Congress are not really paying PHAs to make these utility reimbursements. Housing authorities have to take this money away from other needs, causing deferred maintenance and ultimately fatal disrepair. When HUD cannot provide the necessary funding, PHAs must have alternatives to be able to preserve their buildings.

In essence, halting utility reimbursement temporarily is similar to raising the minimum rent. A family with a \$50 minimum rent and a \$150 utility allowance will now pay a total of \$150/month for its rent and utilities. It will pay nothing to the PHA and \$150 to the utility companies. Furthermore, it will have an incentive to reduce its utility consumption. If it can practice energy conservation and reduce its monthly energy costs to \$100, it will only pay a total of \$100/month—still nothing to the authority and now \$100 to the utility company.

Some housing authorities provide utilities directly to the residents, often giving them an imputed utility allowance based on consumption. In order to provide all public housing agencies with the same opportunity to increase their income, those with PHA supplied utilities will be authorized to set a minimum rent based on the cash value of their consumption based utility allowance.

As mentioned in the minimum rent section, many MTW agencies have already adjusted their minimum rents upward, and as with all the proposals in this paper, hardship provisions will be in place. PHADA believes that at a time when a lack of funding places public housing properties at risk, the policy to require housing authorities to pay their residents to live in their units is misguided and will cause greater harm than good.

### **3. Increase the Percent of Income Charged for Rent**

Residents now pay 30 percent of their adjusted annual income for rent. There is nothing scientific or especially meaningful about that percentage. In fact, during the 1980s, it changed from 25 percent to 30. Since the 1980s, non-assisted renters as a whole are paying more of their income as rent, and the norm now is closer to 35 percent.

In the voucher program, participants are allowed to pay up to 40 percent of their adjusted income for rent, if they choose. Federal policy, therefore, already includes a program for extremely low-income families that has some of them paying 40 percent of their income as rent. As with minimum rent, many MTW agencies also have policies in which residents pay more than 30 percent of their adjusted income as rent.

Thus, if funding levels fall below the trigger point, PHADA proposes that, as a temporary measure, accompanied by hardship provisions, housing authorities be allowed to raise the percent of adjusted income charged for rent anywhere in a range up to the voucher program limit of 40 percent.

The Congressional Budget Office (CBO) recently published an analysis of the effect of raising public

housing rents to 35 percent of annual adjusted income. It calculated that this change would raise over \$600 million. It also concluded that 35 percent of adjusted income was the equivalent of about 33 percent of gross income.

Even if housing authorities could implement this policy change, not all would do so. In certain markets, raising the rents would not be competitive with

the private sector and PHAs would not want to lose some of their higher income residents. As with the minimum rent, authorities could draw distinctions between the elderly and disabled, on the one hand, and able-bodied residents, on the other, in putting this policy choice into effect.

Utilizing this option would only be available based on the principle of proportionality. For the time period during which the federal government is unable to provide the funding necessary to preserve this vital program, agencies can take extraordinary measures, on a temporary basis, with resident protections, to make sure the public housing properties can survive to be there to serve needy families in the years to come when adequate federal funding is available.

***The Administration and Congress are not really paying PHAs to make these utility reimbursements. Housing authorities have to take this money away from other needs, causing deferred maintenance and ultimately fatal disrepair.***

#### 4. Designate Units to Serve Income Eligible Families By Income Strata

The unfortunate truth is that the federal government has not been able to afford the public housing contract for many years now. In other words, the federal government has not been able to afford to have extremely low-income families pay artificially low rents. The government has simply not been able to make up the difference between these rents and the properties' actual costs. The result has been that properties have deteriorated and been lost forever. Fewer families are being served, and still the administration and Congress cannot pay for the deep subsidy they have pledged themselves to provide.

PHADA's fourth proposal is that as long as HUD cannot pay for the deep subsidy built into the program's structure, housing authorities should be free to make a certain number of units available at a shallower subsidy.

The United States already has a program that is designed to provide a shallower subsidy—the Low-Income Housing Tax Credit (LIHTC) program. LIHTC targets families whose income falls in the 40 to 60th percentile of Area Median Income (AMI). Public housing, by contrast, requires that 40 percent of new admissions fall below 30 percent of AMI. When a program is targeted at a higher income group, higher rents can be charged and more revenue collected.

PHADA proposes, therefore that when funding falls below the 90 percent trigger, housing authorities be allowed to set aside some units for families that are still income-eligible for the program (below 80 percent of AMI), but fall within a designated income bracket, such as 40 to 60 percent of AMI. When selecting families for these units, priority would be given to those families falling within the designated income range.

Restraints would be put on the number of units that could be designated. First of all, only vacant units could be used. No family could be evicted to implement this provision. Secondly, not all properties would be desirable enough to attract this higher income range. Thirdly, the amount of income generated cannot exceed the amount of the Congressional funding shortfall.

Rent could be set using either the 30 percent of income formula or a set amount based on the size of the unit. If 50,000 units were designated in this fashion and averaged \$100/month higher in rent than current payments, \$60 million per year would be earned.

This measure is somewhat different from changes in the rent structure that can easily be reversed once federal funding reaches the 90 percent marker again. By virtue of selecting based on income strata, families, who otherwise would not have been housed, will be living in their new apartments. In order not to disrupt these families by making their children change schools (and to have made it worth their while to move in the first place) housing authorities would have the option of letting them stay in their units, even after Congressional funding has improved, contingent on any Congressionally mandated upper income limit.

As with PHADA's other proposals, this one is not made in order to admit higher income families. It is made to generate the revenue needed to preserve the properties. HUD and Congress have already taken the actions that show that they are

either unable or unwilling to pay to house extremely low-income families exclusively. The funding they provide, though, could be enough if some units are occupied by higher income residents who can pay more in rent. Since HUD and Congress are only willing to pay for a partial program at present, in order to keep these units viable, housing authorities must have the leeway of administering a program that is only partially governed by public housing regulations. Administering a partial program, in return for partial funding, is what is meant by proportionality.

***The unfortunate truth is that the federal government has not been able to afford the public housing contract for many years now.***

#### 5. Eliminate or Reduce Deductions and Exemptions

Public housing offers residents an artificially low rent, because it is based on 30 percent of income. Policy-makers have gone beyond this deep subsidy, though, by allowing residents to deduct certain sums from their income or exempt certain sources of income from the

rent calculation. As a result, rent collection is even lower than if it were based on 30 percent of gross income

These deductions, for dependents and the elderly, for medical and childcare expenses, may have worthwhile reasons, but the sad fact is that Congress is not really paying for them. When it underfunds the public housing program, it means that it is giving these deductions to residents, but it is not repaying housing authorities for the lost revenue. The result, in the long run, when PHAs do not get paid the money they need, is the loss of units, the reduction of the program, and low-income families that cannot get affordable housing. While offering deductions and exemptions appears to be a liberal policy, when the money is not made up, it ends up hurting the very low-income people it is supposed to help, because the housing they need has been lost.

These deductions and exemptions are actually a way of paying for other social programs with money that should go to assisted housing. The medical deduction pays for health care costs that would more properly be paid for by the Department of Health and Human Services and programs such as Medicare and Medicaid. The elderly and dependent deductions are essentially an income enhancer for seniors and low-income families. These are ideas borrowed from the income tax system and have nothing to do with a rent based on a percent of income.

PHADA understands that these deductions are helpful to public housing residents, but when Congress is unwilling to pay for them and is underfunding the program significantly, they are counter-productive and harmful to struggling Americans who need decent housing. At these times, PHAs should have the option of eliminating or reducing these deductions and exemptions. These actions would be taken in proportion to the Congressional funding shortfall and would end when funding once again reached the 90 percent proration level. More than \$200 million could be raised if housing authorities were to set rents on 30 percent of gross, rather than adjusted, income. This action would

***When it underfunds the public housing program, it means that it is giving these deductions to residents, but it is not repaying housing authorities for the lost revenue.***

also reduce administrative costs, as it would simplify the annual rent recertification process.

## **6. Specifically Authorize PHAs to Charge User Fees for Various Services**

User fees are becoming a common element of paying for federal programs. Housing authorities have historically charged residents for certain expenses, such as excess utility charges for installing air conditioning or using a second refrigerator. Being able to charge residents for services is a gray area, though, and PHADA proposes Congress authorize it specifically in three areas when funding falls below the triggering mechanism.

Housing authorities should be able to charge new applicants an application fee. Processing applications is a time consuming operation and comes with expenses of its own, such as a credit check and accessing police records. Charging new applicants an application fee, common in the private sector, would help recover these costs. It would also discourage frivolous applications and thus reduce the work load.

A second area, trash removal, is a significant expense for many PHAs. Many, but not all cities provide household, weekly garbage pick up for their citizens.



*Contracting with refuse haulers is expensive and taking trash to the landfill is more and more costly. These trash contracts are one of the largest items in a PHA budget.*



Refuse hauling at public housing developments can be a different process, however. Even in town houses or garden apartment style settings, public housing residents often do not have individual garbage and recycling cans picked up once a week. For a number of reasons, this style of trash pick up can cause problems, leading to debris unacceptably littering the site. If that is the case, PHAs install dumpsters throughout a development and have them picked at an accelerated pace, such as three times a week.

Removing trash in this manner may exceed the municipality's responsibilities, meaning the housing authority has to assume the cost. Regardless of the reason, contracting with refuse haulers is expensive and taking trash to the landfill is more and more costly. These trash contracts are one of the largest items in a PHA budget.

Authorizing housing authorities to charge those residents benefitting from these exceptional removal procedures even a modest fee, such as \$10/month, could raise close to \$100 million at a time when Congress has been unable to fund the program at even 90 percent of the necessary amount.

Parking is the third activity where Congress should specifically authorize a user fee when funding falls below the 90 percent level. When parking is at a premium, and only a few residents are able to benefit, they could pay for their privilege, helping cover costs for all residents.

## 7. Waive specific regulations

When funding is insufficient, housing authorities cannot be expected to be able to comply with all their regulations. That acknowledgment is important and is the basis for the concept of proportionality. PHAs must either be given a way to increase revenue or reduce their costs by waiving certain regulations. Under this proposal, PHAs can make the choice of items from the available menu of options that is right for their residents and communities.

***When funding is insufficient, housing authorities cannot be expected to be able to comply with all their regulations. That acknowledgment is important and is the basis for the concept of proportionality.***

Cost savings from temporarily being relieved of a regulation are not as easy to determine as the calculation of increased revenue. To ensure they stay within the shortfall amount, agencies will have to give an accounting of their savings to HUD.

There are certain regulations that apply uniquely to public housing and not to other assisted housing programs serving exactly the same or similar populations.

The value of these regulations is problematic when Congress has not felt them important enough to apply across the board, and therefore, PHADA proposes that they be waived when there is insufficient funding to administer the public housing program.

The first of these regulations is community service. Community service is the requirement that all able-bodied public housing residents perform community service hours each month. No other assisted housing program requires such a service from its participants. Thus, neither the two million participating families in the Voucher program, nor the million in the project-based section 8 program must perform community service. Community service may be a worthy idea, but at a time when PHAs do not have sufficient funding to maintain their units, they should not have to expend inadequate resources on a policy that is not required of any other program.



*PHADA proposes that specific regulations be waived when there is insufficient funding to administer the public housing program.*

Section 3 is similar to community service in that it is required for the public housing operating fund, but not for project-based section 8 operating expenses. Other assisted housing programs, such as the Low-Income Housing Tax Credit, are also not obliged to follow Section 3 rules.

Section 3's goal of employing low-income individuals is commendable, but clearly not compelling, as it is not asked of other assisted housing providers across the board. At a time of deep, chronic underfunding, in order to cut costs and maintain the units with the reduced funding level, PHAs should be able to postpone implementing Section 3 regulations until such time as Congress appropriates adequate sums or the PHA has made up the shortfall.

Annual recertifications are a very time-consuming, and therefore expensive, undertaking. Congress has recently recognized this fact and changed the annual recertification process to a triennial one for seniors and residents on fixed incomes. The triennial recertification could be applied to all families when necessary funding is not provided in order to sustain the viability of the program. A fixed inflation factor, based on the Consumer Price Index (CPI), could be applied annually, and residents whose income declined could still request an interim recertification.

As with all the other measures, this one would be optional for housing authorities, so that if an agency thought it would lose more income by a triennial re-exam than would be saved through the cost cutting,

it would not have to choose this option. A triennial recertification also gives residents a healthy incentive to increase their income, good for all parties, as the increased income will lead to increased rent in the long run.

Another significant cost to PHAs is the annual Real Estate Assessment Center (REAC) inspection and score. When funding is so low as to jeopardize the properties, as it is now, it is overkill on the part of the overseeing body, HUD, to conduct these annual exams.

Only troubled authorities would still be subject to the once a year inspection. Standard and high performing agencies have shown their capacity to manage the program well. Extending the time period between inspections to three years for PHAs which have proven their ability to administer their properties successfully will not put the program significantly at risk. HUD has many monitoring mechanisms and it will continue to conduct the full-blown REAC inspections every three years. On the contrary, a three year time period will help the properties by giving housing authorities the chance to apply money spent on these exams more directly to making high priority repairs.

As a corollary, REAC scoring should be adjusted during periods of low funding. PHAs receiving funding in the 70–75 percent range cannot be expected to maintain properties to a standard based on 100 percent funding. That is simple fairness that needs to be taken into account. When funding falls below the 90 percent trigger, a scoring adjustment would be put into place.

### The public housing program is not being funded and cannot survive without funding.

For many years, because their regulations limit the amount that can be charged for rent, HUD and Congress have broken their contract with housing authorities by not providing the additional funding needed to pay for the upkeep of the property. PHADA's proposal is designed to preserve the public housing program in the face of these profound and unrelenting shortfalls in the funding HUD and Congress know is needed to administer the program.

This proposal is based on the concept of proportionality. Congress would authorize PHAs to take a certain number of steps to raise revenue and cut costs in proportion to the funding shortfall. These steps would stay in place on a temporary basis while the funding shortfall existed. Thus, they are limited in impact and in duration by Congressional appropriations. Once funding rises to the 90 percent level, all these authorized measures will cease.

PHADA does not make this proposal lightly, because some of these temporary measures can affect residents. Some may think one or more of these measures to be radical, such as rent exceeding 30 percent of income or renting by income strata. PHADA believes rather that they are realistic. The public housing program is not being funded and cannot survive without funding.

The consequences of inaction are far more serious for low-income Americans. The public housing program is disappearing inexorably, and that is a disaster for this population. Housing authority administrators do not want to preside over the demise of this program. They want to save it and have put forth this plan with that goal in mind. They want to dialogue with all those who are interested in preserving these units.

These thoughtful, tested and moderate steps, taken in proportional measure to Congressional funding levels will allow housing authorities to maintain their properties so that, when Congress is once again able and willing to fund the program appropriately, the properties will be available to assist the country's extremely low-income population in accordance with the program's design. By authorizing this menu of options, Congress will enable each housing authority, in conjunction with its residents, Board of Commissioners and stakeholders to make the best decisions to recoup its lost revenue, at no cost to the taxpayers, with the least amount of disruption to the residents.

The decision to save the public housing program, which serves 1 million needy families, mostly elderly or disabled, should not be difficult to make. PHADA urges Congress and the Administration to adopt the ideas in this paper and put a solution in place before any more units are lost needlessly.



**Public Housing Authorities Directors Association**

511 Capitol Court, NE, Washington, DC 20002-4937

Phone: 202-546-5445 Fax: 202-546-2280

[www.phada.org](http://www.phada.org)