

# PHADA grades HARVARD's Study

Harvard University is one of the premier educational institutions in the world. It was contracted by Congress to conduct a study to determine what it costs to operate well-run public housing. As the following pages demonstrate, however, Harvard's final cost study report is incomplete, inaccurate and unsatisfactory. As a result, PHADA has given it an overall grade of "Needs Improvement."

## REPORT CARD

### Harvard Cost Study Final Report

Subject	Grade	Comments
Accuracy	<u>Needs Improvement</u>	Arbitrarily changed statistical results
Adherence to Research Design	<u>Unsatisfactory</u>	No regulatory, operating environment or asset management adjustments
Reliability	<u>Poor</u>	Model predictions often vary significantly from actual property specific costs
Comprehensiveness	<u>Fair</u>	Can't benchmark very old, very large or scattered site properties
Conclusions	<u>Unjustified</u>	Study's findings contradict call for property-based management
Effort	<u>Average</u>	Didn't conduct adequate sample of case studies of PHAs or non-profit properties

**Overall Grade: NEEDS IMPROVEMENT**

*The Harvard Cost Study ended up recommending a method of redistributing static funding rather than fulfilling its assignment of determining the actual cost of managing well-run public housing.*

# PHADA'S CONCERNS WITH

## Design of the Harvard Cost Study

Harvard developed a two-step process to determine operating costs. The first calculated how much each public housing development needed by creating a benchmark using the actual operating expenses of 10,000 properties with Federal Housing Administration (FHA) mortgages. The second step was to add "reasonable costs associated with public housing's unique regulatory and operating environment" plus the cost of asset management.

## Flaws in the Cost Study

### Harvard arbitrarily reduced the cost study's benchmark for public housing

- \* Costs at the FHA properties showed that comparable public housing properties were underfunded by 10 percent.
- \* Harvard **arbitrarily** made model adjustments that reduced the amount PHAs were underfunded to 5 percent. These alterations included the following:

- 1) No property (outside New York City) could cost more than \$420/month.
- 2) All properties costing more than \$325/month were reduced by 4 percent.
- 3) Public housing developments were considered to be 2 percent less expensive than similar private non-profit properties.

- \* Harvard justified these reductions using the results of 97 inadequate "field tests" (a consultant went to a public housing property and developed a budget as if the property were "privately owned and managed.")

*It is simply not plausible that 97 fallible "field tests" are more accurate than the actual expenses of 10,000 properties.*

- \* The FHA properties also do not include any very old, very large or scattered site properties, so developments with these attributes should be looked at separately.

### Harvard decided there were no costs associated with public housing regulatory differences

- \* The study identified 14 regulatory differences between public housing and the assisted FHA properties.
  - ➔ These include PHAS, the annual plan, resident participation, annual unit inspections, the grievance policy, the pet rule, Section 3, and rent calculations.
- \* Despite concrete evidence to the contrary from its ten case studies of PHAs, Harvard decided that there is no need for any funding for these regulations.

# UNIVERSITY STATISTICS PROF

Since the Cost Study relies strongly on a complex statistical analysis, an acaden

## Arbitrary Adjustments

"... the last minute out of model changes including the floor and ceilings on the costs appear to reflect a preconceived notion of how much the total funding should be rather than empirical evidence presented."

"The plan to reduce by 4% the benchmarks between \$325 and \$420 is quite odd and is proposed without justification."

## Model Design Does Not Support Property-Based Funding

"... even if the property-based model is used to determine funding and Housing Authorities begin to implement property-based budgeting, the Housing Authority should have flexibility as to where to spend the money. The system should permit the reallocation of funds if the authority feels property X needs more than the benchmark and property Y needs less. This funding system would be consistent with the nature of the benchmark model."



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# THE HARVARD COST STUDY

## Harvard also decided that no funding should be provided because of public housing's unique operating environment

- \* The study identified 10 potential operating environment differences between public housing and the FHA properties.
  - These include employee compensation, organization and work rules, resident initiatives, information technology, security and legal.
- \* It found that *“in some communities...the local operating environment resulted in significant additional costs...”*
- \* Yet, Harvard decided, again contrary to the evidence, and contrary to its design to add “reasonable costs associated with the operating environment,” that no additional funding was needed to cover these “significant additional costs.”

## Harvard provided no asset management fee

- \* FHA operating expenses only include costs at the property level, with no accounting for work at the executive level.
- \* Without an asset management fee to fund the executive level, the FHA benchmark does not fully cover PHA costs.

## In addition, Harvard made a series of problematic recommendations

- \* It suggested offsetting operating subsidy with \$100 million of housing authority investment and non-rental income.
- \* Proposed eliminating fungibility between the capital and operating funds.
- \* Advocated adoption of property based budgeting, accounting and management
  - This recommendation runs counter to the main finding of the study—that PHAs manage property more efficiently than do the owners of the properties in the FHA database.
  - It risks increasing PHA costs as they would lose economies of scale and have additional financial reporting costs.
  - The model cannot accurately predict costs at the property level.

## PHADA's Solution

### PHADA urges that the negotiated rulemaking committee be reconvened

- \* The study is not ready for implementation since it contradicts its own design and its own evidence.

A statutorily mandated negotiated rulemaking committee was created to develop a new operating cost formula. It asked for the cost study to assist in this work. It must now be the body to evaluate the cost study in order to determine the extent to which it can serve as the basis for the new operating cost formula. See the next page for additional details on the need for the “neg-reg” committee to reconvene.

# LESSOR IDENTIFIES PROBLEMS

nic adviser was engaged to determine the extent to which the study is accurate.

### Model Will Not Predict Property-Specific Values Accurately

“While the benchmark may be too low for one property, it is likely too high for another. This may lead to accurate estimate of the overall funding needed, but will likely create great inequities at the local level. I believe it is important that the funding mechanism be flexible to take this into account.”

“The results ... demonstrate the inability of the benchmark model to predict the cost of a single property accurately.”

“The smallest of Housing Authorities will have only one property. Its predicted cost could be over 50% off.”

*The preceding remarks were taken from a recent letter written by American University Professor Alexander White to HUD Assistant Secretary Michael Liu. The full text of the letter may be accessed on the PHADA website.*

# THE NEED FOR “NEG-REG”

In QHWRA, Congress authorized a negotiated rulemaking committee to devise a new funding system for public housing costs. Since insufficient information was available, the “neg-reg” committee proposed a study to determine the actual cost of managing well-run housing. Reconvening the “neg-reg” committee to evaluate the completed cost study was always agreed to be a necessary part of the process. Now, however, HUD has indicated it plans to proceed directly with rulemaking without reconvening the “neg-reg” committee. Below is a timeline describing the commitment to negotiated rulemaking.

## CHRONOLOGY

### March 2000

“Following and based upon the findings and recommendations of the completed cost study, HUD will develop additional rulemaking to finalize the Operating Fund Formula, using the procedures of the Negotiated Rulemaking Act ... ”

“The Department made a commitment to the Negotiated Rule Making process ... ”

*Taken from the actual minutes of the March 8, 2000 session of the Negotiated Rulemaking Advisory Committee on Operating Fund Allocation*

### March 2001



“Following and based upon the findings and recommendations of the completed cost study and QHWRA, HUD will develop the final rule implementing the Operating Fund Formula, using the procedures of the Negotiated Rulemaking Act of 1990 ... ”

*Language from the Bush Administration’s Final Rule [24 CFR Part 990], March 29, 2001*

### June 2003



*Rep. Barney Frank (D-MA)  
Ranking Member  
Committee on Financial Services*

“We are writing to urge you to reconvene the Operating Fund Negotiated Rulemaking Committee for the purpose of developing a final public housing operating fund formula as directed by Section 519 of the Quality Housing and Work Responsibility Act of 1998 (QHWRA). ”

*June 25, 2003 letter to HUD Secretary Mel Martinez*



*Rep. Maxine Waters (D-CA)  
Ranking Member  
Subcommittee on Housing  
& Community Opportunity*

### June 2003

“Our legal counsel has advised us that proceeding ... to develop the final Operating Fund formula without negotiated rulemaking is unlawful. ”

*Joint Industry letter to HUD Assistant Secretary Michael Liu*