



Convert Portion of Public Housing to Project-Based Model

Increased Funding Reliability and Amounts Will Preserve Public Housing Properties

Last summer's "Future of Public Housing" meeting concluded that important steps were needed to preserve public housing. Over the past 15 years, 200,000 public housing units have been lost, and replaced by only 50,000 new ones. The primary reason these units have been lost is that adequate funding has not been provided to sustain them. As far back as 1998, HUD identified that there was a need for more than \$20 billion to bring the portfolio to HUD quality standards, and no significant headway has been made since that time.

Without the ability to make these capital repairs, public housing properties will continue to deteriorate and additional ones will reach the tipping point beyond which they cannot be saved cost-effectively. Given current budgetary constraints, however, it is not realistic to expect Congress to appropriate the \$20 billion needed. To save public housing units, it is necessary to find another way to raise this money.

It has been widely noted that both the Section 8 project based assistance program and the tenant-based program have two advantages over the public housing one. First, each of them provides more funding per unit than public housing, with the tenant-based differential about \$2000/unit per year. Secondly, the funding for each of these programs has been more reliable than public housing's funding with its deep annual proration, reduced capital awards and disappearance of funding streams such as the drug elimination program. The project-based assistance program, in contrast, has never received less than 100 percent of its annual funding. A third advantage these two programs have over public housing is that they operate under simpler regulatory frameworks.

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Given these advantages, a consensus developed among the participants of the "Future of Public Housing" meeting that a conversion to one of these programs for a certain number of public housing units would provide the resources to make converted properties sustainable for the long-term. With a \$2000/unit differential, converting 100,000 public housing units might cost as little as \$200 million more per year. With the extra revenue to use as debt-service, these properties could borrow \$2-3 billion to make the repairs necessary to return them to HUD standards.

If, over time, a total of 200,000-400,000 units were converted in this manner, as much as \$10 billion of the backlog could be taken care of. The conversion plan could be combined with other programs, such as an expanded HOPE VI program for severely distressed units, and an improved capital fund allocation for properties with fewer capital needs to address the public housing portfolio holistically to ensure that it would remain available and in good repair for further generations.

PHADA believes that this conversion program should be as flex-

ible as possible and therefore supports the use of either project-based assistance or tenant-based vouchers. In addition to its 100 percent funding track record, project-based assistance allows rents to be set at either the market level or a budget based amount. PHADA believes that there are older public housing properties, in inner city locations, that might not be able to command market rents sufficient to provide the revenue to repay a capital loan. Since these properties are well worth preserving, a budget based rent might be necessary, but would not likely be higher than national average voucher costs.

Another feature of the project-based assistance program is that it does not provide tenant mobility. PHADA has some concerns that, again, in older, inner city public housing properties, making mobility a feature of the program could lead to large enough exoduses to jeopardize the viability of the property, which is after all the purpose of the conversion. Finally, lenders are very familiar with the concept of project-based assistance, its stability of tenure, its contract with HUD, and its 100 percent funding track record and as a result will probably be more willing to fund these properties than those converted in other manners.

A second model of project-based conversion would be the use of the project based voucher component of the tenant-based program. The restriction permitting only 25 percent of a property to be project-based vouchers would be lifted, allowing 100 percent of the public housing units to be included in the conversion. Rents would be market based and, after a year's residency, participants would have the right to the agency's first available tenant-based voucher. This right makes this program attractive to resident advocates, such as the National Low-Income Housing Coalition, as well as public policy organizations which promote mobility, such as the Center for Budget and Policy Priorities.

Conversion to project-based vouchers may also be preferred by housing authorities which have had experience with them in the recent past, have properties for which market rents would be adequate and are confident that market conditions would not lead to higher than normal turnover due to the mobility provision.

At best, conversion to these programs will only be available for a limited number of properties, at least in the beginning. Therefore, some criteria will be needed to determine which ones are selected. The purpose of the conversion is to preserve the properties for the long-term, so sustainability should be at the heart of how these decisions are made. It may be that sustainability is tied to the rehab that can be done through the leveraging of private funding sources. On the other hand, there may be other reasons why a property might need additional funds to preserve itself into the future. These could include money for better security or comprehensive resident services, as well as funds for additional maintenance to reduce vacancies, turn over units more quickly and complete routine and preventive maintenance work orders.

Conversion of public housing to one of the project-based programs is an exciting idea that has the potential to preserve hundreds of thousands of at-risk units at a relatively modest increment to affordable housing appropriations. ■