Preserving Public Housing

Realistic Options to Increase Revenue, Reduce Costs and Provide Program Flexibility

Public Housing Authorities Directors Association
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PHADA Executive Director: Tim Kaiser

Articles 1, 2, 3, 5, 6, 7, 8, and 10, written by Ted Van Dyke
Articles 4 and 9, written by Jim Armstrong

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Funding for our nation’s affordable housing programs is reaching crisis proportions. The federal government has been unable to maintain its commitment to sustain the public housing and voucher programs. Public housing’s operating fund proration was 81.86 percent in 2013; the capital fund pays for less than one-half the annual repairs, doing nothing to make a dent in the $26 billion backlog; and the HOPE VI and drug elimination programs have disappeared. Hundreds of thousands of authorized vouchers are now unused because of a lack of money and the administrative fee is only 69 percent of its formula.

These affordable housing resources are desperately needed by America’s low-income population. Worst case housing needs have increased and unemployment remains stubbornly high. Young families, the elderly and the disabled benefit significantly from the stability affordable shelter provides.

Housing authorities, which are on the front-line in their communities alleviating the effects of poverty, want to see these hard units and vouchers survive. They believe something must and can be done to arrest and reverse this decline.

PHADA has seen these funding issues coming. While it continues to advocate as forcefully as possible for additional funding, it believes it is prudent to prepare for all eventualities. If appropriations remain woefully inadequate, there are two achievable solutions—increasing revenue and providing flexibility to use existing revenue more efficiently.

Over the past several years, PHADA has proposed seven additional ideas that can raise substantial amounts of revenue and utilize existing funds more efficiently. Most of them have already been tested by housing authorities all over the country and proven to work without harming residents.

To its credit, HUD has implemented one approach to dealing with the public housing funding crisis, which is the rental assistance demonstration (RAD). Converting public housing to a section 8 platform does offer more regulatory flexibility and facilitates tapping private sector financing. Unfortunately, though, with no additional funding for these properties, the program is constrained in the help it can provide developments with sizeable capital needs.

Over the past several years, PHADA has proposed seven additional ideas that can raise substantial amounts of revenue and utilize existing funds more efficiently. Most of them have already been tested by housing authorities all over the country and proven to work without harming residents.

The PHADA Advocate has published a series of articles on these ideas, describing how they would generate revenues or create savings and how much they can produce. PHADA urges you to read this important booklet, which gathers these articles in one place, so they can be easily accessible to policy makers, legislators, and advocates.

Affordable housing in the 21st century does not need to disappear slowly because there were no solutions. Instead, supporters of these programs must coalesce around proposals such as these so that we can continue to help those Americans who need assistance in the future as we have been able to help previous generations for the past 75 years.
Genuine Options Available to Increase Public Housing and Section 8 Revenues

Billions of Additional Dollars Could Be Generated

The President's column in the last issue of the Advocate listed a number of ways to increase revenues and reduce costs in the public housing and section 8 programs. Given the historically low levels for public housing and vouchers in the 2013 budget, increasing revenues and reducing costs are necessary to ensure the survival of these vitally important resources.

This article will calculate how much some of these ideas can actually produce. Although some of them entail difficult and controversial decisions, none jeopardize the affordable nature of the public housing and section 8 programs, and if they were enacted could potentially provide more than $3 billion in additional revenue and savings. New resources of this magnitude would allow full funding of the public housing operating fund and section 8 administrative fees, as well as significant amounts of additional money for the capital fund and housing assistance payments.

Below is a table summarizing these proposals and the potential amount of revenue or savings they could generate.

<table>
<thead>
<tr>
<th>Revenue / Savings Proposal</th>
<th>Potential Annual Revenue / Savings Generated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Set Rents at 30 Percent of Annual Income</td>
<td>$1 billion</td>
</tr>
<tr>
<td>2. Set Minimum Rent Cap at $100/month</td>
<td>$432 million</td>
</tr>
<tr>
<td>3. Blend PH and Voucher Targeting Goals</td>
<td>$640 million</td>
</tr>
<tr>
<td>4. Freeze Rental Income</td>
<td>$1 billion</td>
</tr>
<tr>
<td>5. Freeze Utility Consumption Level</td>
<td>$250 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3.322 billion</strong></td>
</tr>
</tbody>
</table>

*Savings may not be entirely cumulative

Set Rents at 30 Percent of Annual Income

Currently, rents are set at 30 percent of adjusted income which is based both on exclusions and deductions. Many of the exclusions would be difficult to change, even statutorily, because they involve multiple congressional committees. The deductions, on the other hand, could be removed through the normal authorizing process for a housing bill.

The major deductions encompass items such as the dependent and elder deductions, as well
as the child care and medical ones. Eliminating these deductions is not optimal, because they will raise rents for many tenants and participants, but the hard fact is that Congress has stopped funding them, and it is wrong to take money vitally needed to pay for actually housing low-income families and use it to pay, for example, for healthcare costs more properly the responsibility of a department such as Health and Human Services.

If Congress fully funded the affordable housing programs including paying for the deductions, their impact on HAs and affordable housing would mainly be a matter of making the administration of the rent structure more complicated. When Congress does not pay for the deductions, as is now and will almost certainly continue to be the case, their impact is far greater for then, essentially, revenue, in the form of rents, is being taken from the amount critically needed to pay for the housing and used to pay for medical or child care costs.

Setting rents at 30 percent of annual income will produce a considerable amount of money.

Setting a rent at 30 percent of annual income provides affordable housing. Having such a subsidy is extremely valuable to anyone lucky enough to receive one. Thirty percent is a viable level at which to establish rents. It is possible, though, that while numerous other programs, such as Medicare and Medicaid, exist to help low-income families, some tenants or participants with high medical expenses might still have some difficulty paying this rent.

If that is the case, and if Congress supports a policy to help with these costs, they should be addressed where they belong—in the Medicare or Medicaid programs—and not by reducing funds needed to pay for the already severely underfunded affordable housing programs. If Congress continues to take housing money and use it to pay for medical costs, these units, both hard and soft, run the risk of disappearing and thus being unable to assist anybody.

Setting rents at 30 percent of annual income will produce a considerable amount of money. Based on statistics in HUD's resident characteristics report, and confirmed by testimony of the Government Accountability Office (GAO), this change, applied to public housing, as well as tenant and project-based vouchers, would raise more than $1 billion. It would also produce considerable administrative savings, as it would vastly simplify the rent setting process.

The Minimum Rent

The minimum rent is another difficult topic, because it is applied to families when 30 percent of their adjusted income falls below the amount at which the minimum rent is set. Currently, it is set at a maximum of $50/month, or $600/year, a level where it was set in 1998, 15 years ago. PHADA believes that it is good policy to have families receiving affordable housing subsidies pay a minimum rent and does not think raising it from this very low level will place an undue burden on tenants and participants.

If it does, however, there are hardship provisions in place that for all practical purposes prohibit evicting a family that cannot pay the minimum rent. At hearings in the House in 2012 when it debated the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA),
opponents of a minimum rent increase did not provide a single example of a family that has been evicted because of the minimum rent.

There is widespread, although not universal, agreement that it is time to raise the minimum rent. Such a decision would account for the 15 years which have gone by since it was established, benefit from the experiences of more than half of the Moving-to Work (MTW) agencies which have set their minimum rents above $50, and raise badly needed revenue. In addition to Congressional interest in a minimum rent increase demonstrated by the AHSSIA legislation, HUD placed a hike in the minimum rent in its 2013 budget.

PHADA has proposed increasing the cap to $100/month, and estimates that if it were adopted universally, it would increase rental payments by $432 million. PHADA continues to support the use of hardship provisions which it believes will adequately protect tenants and participants. The experience of the MTW agencies has demonstrated the feasibility of increased minimum rents without causing harm, and 15 years is too long a period to have let elapse without addressing an issue of such importance to the viability of the programs.

**Blend Public Housing and Voucher Targeting Goals**

Forty percent of new admissions to public housing properties must be extremely low-income (ELI) families, while 75 percent of new admissions to the voucher program must be ELI. In actuality, though, 68 percent of the families in public housing are ELI (below 30 percent of area median income), so the two programs are serving a far greater percentage of extremely low-income required by Congress. The targeting standard cur- an ELI population in the of 70 percent.

If only 40 percent of the the public housing pro- Congress mandated, and families in tenant-based as is the actual case, then the two programs would which could be established With public housing's ELI percent, Section 8’s would percent to achieve the amount.

If HUD were to perform a calculation each year and verified that the blended proportion of ELI families in the two programs exceeded 60 percent, it could reduce the voucher targeting standard to 54 percent, or perhaps even lower. If, over time, the blended rate fell below the 60 percent amount, the Department could increase the voucher targeting standard appropriately.

Admitting only 54 percent of ELI families rather than today’s 75 percent could reduce HAP costs $84 million per year for these families. If, over time, the percentage of ELI families in Where is the money going to come from?
the voucher program dropped from 70 percent to 54 percent, the annual savings could be $640 million per year. A reduction of costs of this magnitude would be achieved while still maintaining the spirit of the targeting goals established by Congress.

The Frozen Rental Income Provision

In the Quality Housing and Work Responsibility Act (QHWRA), Congress required HUD to implement an incentive to increase rental income. The statute says “The formula shall provide an incentive to encourage public housing agencies to facilitate increases in earned income by families in occupancy. Any such incentive shall provide that the agency shall benefit from increases in such rental income…”

HUD implemented this requirement through the frozen rental income provision that allowed housing authorities to calculate operating subsidy on the basis of a frozen 2004 rental income amount for three years from 2007 to 2009. This provision was extremely successful and rents increased by an average of 4 percent a year, compared to an historical average of 2.2 percent, despite the deep recession in two of those years. In all rental income increased by $250 million more per year than it would have based on historical averages, saving the Department $250 million in subsidy costs each year since then.

PHADA, CLPHA and NAHRO all asked the Department to continue the frozen rental income provision after it elapsed in 2009. They proposed HUD keep renewing it for three year intervals, resetting the frozen amount every three years. In this way, HUD would benefit from increased rental income over time, as well as housing authorities.

...if rents continued to increase annually at a 4 percent rate, rather than a 2.2 percent one, more than $20 billion would be generated over a 20 year period,....

In the March 10, 2010 Advocate, PHADA published a table showing that if rents continued to increase annually at a 4 percent rate, rather than a 2.2 percent one, more than $20 billion would be generated over a 20 year period, with approximately half going to HUD in reduced subsidy obligations, and half to housing authorities in increased revenue. That’s an average of $1 billion per year.

The administration was very shortsighted in 2010 to have abandoned the frozen rental income incentive for a short term budgetary gain. There is every reason to believe that, given this incentive, housing authorities can continue to increase their rental revenue through a variety of different methods, including assisting residents to get jobs and get better jobs, being vigilant about flat rents, maximizing minimum rents, and setting preferences that encourage residents to work.

With a 4 percent annual rental increase, PHADA’s chart showed the average per unit month rent to be $480.90 in the year 2029. That rental amount would be based on an average annual income of $19,204, not out of reach considering that today’s public housing average income is $13,661. This proposal is a win-win-win for the Department, housing authori-
ties and residents, with enormous financial potential. It is mandated statutorily, and HUD should reinstitute it as soon as possible.

**The Utility Frozen Rolling Base**

Public housing utility consumption costs around $1.7 billion per year. Despite decades of effort on the part of HUD and HAs, consumption has remained steady, according to a 2010 analysis (PHADA Advocate, April 7, 2010). Part of the problem is a funding system that pays for consumption if it goes up, and inadequately rewards housing authorities if it goes down.

In certain situations, HUD will allow agencies to freeze their consumption levels for funding purposes, so that they can reap the rewards of reduced energy usage. Some MTW agencies have this ability, and the energy performance contracting program (EPC) allows it, with the proviso that an agency spend at least 75 percent of the savings on repayment of a loan which pays for the energy conservation measures. Although this latter program is worthwhile, it is very cumbersome, spends a good deal of the savings on financing, legal and consultant costs, is extremely time consuming to initiate, and is difficult for small housing authorities to use.

HUD needs to adopt a simpler, more comprehensive approach by allowing all HAs the opportunity to freeze their consumption levels for a 20 year period and utilize their savings for low-income housing purposes. This incentive would stimulate agencies to find every possible saving, big and small, capital intensive or low tech, in order to reduce their consumption levels and in turn have the additional funds to preserve their properties and help their residents. One very productive use of these savings, not allowable using an EPC, would be to put an energy professional on staff who can identify and implement the myriad energy savings concepts available today.

Reputable estimates place possible savings in public housing at 30 percent of current levels (Evidence Matters, Summer, 2011). Conservatively, using a 15 percent number would generate $250 million a year that could help agencies cope with their capital and operating fund shortfalls.

Locking in current consumption levels will not cost the federal government any additional money, because, with a history of static consumption levels, it would be obligated to pay these amounts anyway. The Congressional Budget Office has recognized this reality and scored this proposal as having no cost for the federal government.

These ideas can produce a substantial amount of revenue for affordable housing, if the savings are retained in the programs. With an amount approaching $3.322 billion more, the operating fund could be fully funded ($850 million), Section 8 administrative fees could be fully funded ($500 million), 130,000 additional vouchers could be provided, and $1 billion per year could be used for capital improvements. It is time for HUD and Congress to find solutions to the crisis affecting affordable housing programs, rather than aggravating it more and more each year.
Proposal #1
Minimum Rent

- Allowing affordable housing programs to raise the minimum rent to $100 could raise $432 million.

- The current $50 limit has not been changed for 15 years.

- Hardship provisions prevent any resident from being evicted for failure to pay the minimum rent.

- One-half of Moving to Work agencies have minimum rents that exceed $50 with no harm caused to residents.

$50 in 1998 is now worth $71.82
House Subcommittee Considers Minimum Rent Increase

Minimum Rent Has Not Changed Since 1998

The House Insurance, Housing and Community Opportunity Subcommittee’s draft Section 8 Savings Act (SESA) bill includes the first change in minimum rents since QHWRA in 1998. PHADA believes that a change is needed and long overdue, and it has endorsed an optional increase to $100/month. The House draft proposes an increase to $75/month or 12 percent of the FMR, whichever is higher, if agencies adopt family self sufficiency programs.

Funding for public housing and other affordable housing programs is at a crisis point. An October 26, 2011 editorial in the New York Times stated that “Public housing…is on the verge of collapse.” These programs need additional revenue, and tenant rent policies must be included in a discussion of this problem. PHADA commends the Subcommittee for its leadership in addressing this important topic.

The current minimum rent has been in effect since 1998. It is important to note that it requires that housing authorities adopt hardship provisions that prevent evictions.

SESA’s Minimum Rent Proposal

The current minimum rent has been in effect since 1998. It is important to note that it requires that housing authorities adopt hardship provisions that prevent evictions. Thus, any potential negative consequences of the minimum rent on families are mitigated. It is also important to note that the hardship provisions are invoked relatively infrequently. As a result, affordable housing programs have a long history of successfully implementing a minimum rent policy.

SESA’s minimum rent proposal is slightly different than the traditional concept. On the one hand, it allows agencies to raise their minimum rents to $75/month, which is not far removed from simply adjusting 1998’s $50 minimum rent to take inflation into account. On the other hand, though, SESA offers HAs a second option. They may also raise the minimum rent to an amount equal to 12 percent of the FMR.

This second option introduces several new features to a minimum rent policy. First of all, it differentiates the minimum rent by location. In other words, areas whose costs are high can charge a higher minimum rent than areas whose costs are low. That appears to be a sensible addition. Secondly, it allows the minimum rent to change each year. As the FMR changes, a minimum rent tied to the FMR may also change. This feature also makes sense.
Thirdly, the minimum rent may now be tied to the size of an apartment. Families needing larger units can be asked to pay a higher minimum rent than families with smaller units. Finally, the potential minimum rent could be quite high for large units in high cost areas. To take an extreme case, the minimum rent for a 4 bedroom apartment in San Francisco could be $322 under this policy. It should be noted that SESA’s minimum rent is not a requirement. It is an option made available to housing authorities. Thus, it would still be the board, including a resident commissioner and appointed by the chief elected official, which would set the agency’s minimum rent amount.

It is difficult to determine how much additional revenue SESA’s minimum rent proposal would generate. One important variable includes whether or not it would apply in the same fashion to public housing, tenant based vouchers and project based rental assistance. Additional variables include the number of places adopting higher minimum rents and the level at which those higher minimum rents would be set. If $75 were adopted as the minimum rent for all the units in each of these three programs, approximately $250 million in additional revenue would be generated. If the standard of 12 percent of the FMR were used in all these units, the amount would rise to about $530 million. Thus, there is the potential for adding a significant amount of revenue to the affordable housing programs.

Minimum Rents at Moving to Work (MTW) Agencies

Moving to Work is a program that allows participating housing authorities to experiment with rent policies. As a result, about half of the MTW agencies have adopted minimum rent policies that differ from HUD’s national one. MTW was meant to be an incubator of innovative ideas and a program where the consequences of these ideas could be measured. In the case of minimum rents, these goals have been achieved. Below is a table of the alternative minimum rent policies that have been adopted by MTW agencies.

<table>
<thead>
<tr>
<th>MTW Agency</th>
<th>Minimum Rent</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>$125</td>
<td>Family units</td>
</tr>
<tr>
<td>Cambridge</td>
<td>$66-88</td>
<td>Family</td>
</tr>
<tr>
<td></td>
<td>$63</td>
<td>Elderly</td>
</tr>
<tr>
<td>Champaign County, IL</td>
<td>$80</td>
<td>2 Bedroom</td>
</tr>
<tr>
<td></td>
<td>$120</td>
<td>3 Bedroom</td>
</tr>
<tr>
<td></td>
<td>$160</td>
<td>4 Bedroom</td>
</tr>
<tr>
<td>Charlotte</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td>Chicago</td>
<td>$75</td>
<td></td>
</tr>
<tr>
<td>Keene, NH</td>
<td>Up to $428</td>
<td>45% of 2 Bedroom FMR, third step of stepped rent increases</td>
</tr>
<tr>
<td>Lawrence Douglas, KS</td>
<td>$175-265</td>
<td>Varies by bedroom size</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>$212</td>
<td>1 non-elderly, non-disabled adult assuming a set number of hours at minimum wage</td>
</tr>
</tbody>
</table>
There are important lessons to be learned from the Moving to Work program. It is striking that agencies of all different sizes and locations have implemented these policies. As with public housing as a whole, MTW agencies do not report that residents generally have difficulty complying with these minimum rent provisions. Although, it did not study all of these agencies, the Urban Institute found, in its 2004 evaluation, that MTW had caused no harm to residents. Thus, there is a track record that shows that when localities establish their own minimum rents, even ones that might be considered to be high, they are not negatively affecting families.

Secondly, about half of the MTW agencies have chosen not to establish alternate minimum rent policies. Even though they have this ability, they have decided not to exercise it. Thus, passing a bill that allows housing authorities to raise minimum rents to a certain level does not mean that every housing authority will decide to change its policy. Local boards, responsive to the needs of their communities, will still make these decisions.

Another fact of these policies is that many of them are not that high. Chicago, Cambridge and Minneapolis are either at $75 or in the $75 range. These figures should reassure residents and advocates that they can work with their housing authorities to establish reasonable minimum rents. Where conditions permit, though, such as regions with strong employment markets or agencies with effective self sufficiency programs, authorities may conclude that higher minimum rents are workable.

<table>
<thead>
<tr>
<th>Location</th>
<th>Minimum Rent</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minneapolis</td>
<td>$75</td>
<td></td>
</tr>
<tr>
<td>Orlando</td>
<td>$225</td>
<td>Non-elderly, non-disabled with self sufficiency counseling</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>$150</td>
<td>Non-elderly, non-disabled or participating in a work training program</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>$100 $200</td>
<td>Non-elderly, non-disabled after two years. Increases after four years</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>$125</td>
<td></td>
</tr>
<tr>
<td>San Diego</td>
<td>$100 $200</td>
<td>One non-elderly, non disabled adult, years 1-2. Increases for years 3 and 4. Years 5+</td>
</tr>
<tr>
<td>Tacoma</td>
<td>$100</td>
<td>Non-elderly, non-disabled, after two years</td>
</tr>
<tr>
<td>Tulare County, CA</td>
<td>$270-$630</td>
<td>Varies by bedroom size</td>
</tr>
<tr>
<td>Vancouver, WA</td>
<td>$400</td>
<td>Average rent to sustain newly developed public housing units</td>
</tr>
</tbody>
</table>

...there is a track record that shows that when localities establish their own minimum rents, even ones that might be considered to be high, they are not negatively affecting families.
A characteristic of many policies is to distinguish between families and elderly or disabled residents. These minimum rent policies only apply to families headed by able bodied adults. Finally, frequently these policies are tied to self-sufficiency. For instance a policy may tie the minimum rent to assuming that an able bodied adult is working a certain number of hours at the minimum wage. In a similar vein, rents may increase over time as a family is expected to take advantage of self sufficiency programs and augment its income. Local agencies are tailoring minimum rents to their local circumstances.

Fourteen years have gone by without an increase in the minimum rent. In the meantime, funding conditions have deteriorated to the point that the New York Times believes that “public housing is on the verge of collapse.” The nation’s safety net and its $150 billion investment in public housing should not be allowed to disappear. All sources of revenue must be utilized, even that of program participants. These programs are in jeopardy, and means must be found to preserve them for current and future generations.

A 3 BR FMR in Boston in 2014 is $1811. Minimum rent for a 3 BR apartment in Boston would be $100.
Proposal #2

Blending Public Housing and Section 8 Income Targeting

- Congress mandates that 40 percent of public housing and 75 percent of voucher new admissions must be extremely low-income (30 percent of area median income).

- Currently 67 percent of public housing units are occupied by extremely low income (ELI) families.

- Allowing agencies to blend the two targeting standards would comply with congressional requirements to serve ELI households, but would lower overall subsidy costs.

- **Could save $576 million.**
Blending Section 8 and Public Housing Targeting Could Reduce HAP Expenses

Measure Has the Potential to Save $576 Million Annually Without Lowering Targeting Goals

Since the passage of the Quality Housing and Work Responsibility Act (QHWRA) in 1998, the public housing and voucher programs have had targeting requirements. These establish the percent of new admissions that must be extremely low income (ELI), meaning their incomes are 30 percent or below the area median income (AMI). For public housing, the percent is 40 percent and for tenant based section 8, it is 75 percent. Essentially, these targeting requirements mean that Congress mandated that public housing be approximately 40 percent ELI and that section 8 be 75 percent.

Since 1998, public housing’s ELI percent has declined to today’s level of 61.2 percent, but it has not gone down to the 40 percent level set by Congress. As a result there are 254,000 more ELI families in the public housing program than required by law. Were the program to serve fewer ELI families, as envisioned by Congress, the costs of the program would be reduced significantly. There may be reasons, however, for instance the nature of their waiting lists, explaining why HAs have not gone below this percentage in the public housing program.

Therefore, in order to serve the number of ELI families required by Congress, and to save program costs, housing authorities should be permitted to blend their public housing and section 8 targeting requirements. Each HA administering both programs should be able to blend its targeting goal which would be met using the combined percent of ELI families in both programs. This step has the potential of reducing housing assistance payment (HAP) expenses by $576 million without reducing the number of families housed or serving fewer ELI families than envisioned by Congress.

A Methodology to Blend Public Housing and Section 8’s Targeting Requirements

It would be possible to develop a methodology that would blend the targeting requirements, while still ensuring that the same amount of ELI families would be admitted as envisioned by Congress, which is approximately 213,000 with a 10 percent annual turnover. Such a methodology would need to minimize increasing the public housing target of 40 percent at public housing only agencies, while maintaining as high a target as possible at Section 8 only ones, all the while maximizing the cost savings potential of the blending.

QHWRA set a lower ELI standard for public housing properties in order to avoid the worst effects caused by concentrating poverty in a single location. The fact that the ELI popula-
tion in public housing is still 61.2 percent has shown that local agencies have been able to manage their public housing properties with a higher percentage of ELI families. That may be because the negative effects of concentrating poverty are not as great in some properties—such as elderly buildings, or small developments or rural ones—or it may simply reflect the realities of an agency’s waiting list.

These development by development differences show that the decisions concerning the makeup of individual properties should be a local one. Based on their individual circumstances, housing authorities should be able to manage their ELI admissions based on the totality of their programs. If the new admissions of ELI families in public housing exceeds the 40 percent mandate, they should be able to lower the number of ELI families in their section 8 program correspondingly, if they so choose.

**Blending targeting is an idea that has the potential to reduce program costs significantly without either reducing the number of families housed or changing the number of ELI families Congress mandated be served by these two programs.**

To provide an example, a housing authority might have 100 new admissions each year in its section 8 program and 50 in its public housing one. Under current regulations, it would have to admit at least 75 ELI families to its section 8 program and 20 to its public housing one, for a total of 95 ELI families. Imagine its blended target was also 63 percent (95/150).

Since the current ELI percentage in public housing is 61.2 percent, it is likely this housing authority would have admitted 31 ELI families based on that average to its public housing program. Thus, a blended rate would permit this agency, if it chose, to admit 11 fewer ELI families (or 64) to its section 8 program. On a national basis, the effect of this policy would be to admit approximately 25,000 fewer ELI families a year, which is less than 1 percent of the total number of 3.4 million families in the two programs.

**The Potential Cost Savings of a Blended Targeting Rate**

The differentiation in targeting rates since QHWRA has had an impact on income levels in public housing and tenant based section 8. Income levels in public housing used to be below those in tenant based section 8, but during the years since QHWRA, they have grown and now surpass section 8 incomes. According to the Resident Characteristics Report (RCR), the average public housing income is now $13,385, while the average tenant based section 8 income is $12,511. That is a difference of $874 per resident on average.

As mentioned, public housing is currently 61.2 percent ELI. This percent means that there are 254,000 more ELI families in public housing than would be required if all housing authorities only filled 40 percent of their new admissions with ELI families. If a blended rate were used, the housing choice voucher program could, over time, reduce the number of its ELI families by 254,000. If that reduction were accomplished, it would mean that 61.3 percent of Section 8 was ELI.

Since this 61.3 percentage is virtually identical to the 61.2 percentage in public housing, it is reasonable to assume that the average income in Section 8 would increase to public hous-
ing’s level of $13,385. With the average section 8 income $874 more a year, it would mean that, based on 30 percent of income, the average rent would increase by $262 per year on average. Multiplying $262 times the 2.2 million tenant based Section 8 participants means that the tenant portion of the rent would increase by $576 million, reducing the housing assistance payments (HAP) by a proportionate amount. In other words, the cost of the section 8 program would be reduced by $576 million.

This cost reduction would not occur overnight, because at first the reduction in HAP would only occur in newly admitted families. Therefore, the cost savings might take a full decade to be realized. It is also unlikely that the full $576 million potential would be realized as not every housing authority would choose to reduce the number of ELI families it admitted. Nevertheless, as has been the case in public housing since QHWRA, there would be a reduction of ELI families and an increase in average tenant income over time that will, in turn, reduce the cost of the program.

Congress, HUD, housing authorities, residents and other stakeholders need to find ways to reduce the costs of affordable housing programs. The unfortunate facts of the current appropriations levels are that the section 8 administrative fees are funded at a 75 percent proration, the 2012 public housing operating fund is funded at an 80 percent level, the public housing capital fund is only one-half the amount needed to pay for the annual accrual, and the HOPE VI program has been eliminated.

Blending targeting is an idea that has the potential to reduce program costs significantly without either reducing the number of families housed or changing the number of ELI families Congress mandated be served by these two programs. It simply provides housing authorities with more flexibility in determining how to house those ELI households. It is a way to reduce costs while still complying with congressional intentions and priorities.

As mentioned, just as many families would be served under this proposal as currently. It is also hard to argue that families slightly over 30 percent of AMI are not just as needy as families slightly under. In fact, depending on their circumstances, they may be needier. All families, including all ELI families will still have the same access to the waiting list and will still be served on a first come first served basis, or on the basis of preferences agencies have adopted in their admissions policy.

This proposal will only mean that slightly fewer ELI families will jump over non-ELI families on the waiting list based on targeting requirements. It is a fair system that modestly rewards planning ahead by applying early without penalizing having slightly improved one’s income. It still requires that almost 2/3rds of new admissions to the two programs be ELI, and it adheres to Congressional guidelines.

PHADA is very concerned about the underfunding of affordable housing programs. It plans to present ideas that can halt the funding freefall and sustain the programs into the future. It recently published an article describing innovations in minimum rent policies that could be adopted to generate additional revenue and lower costs without reducing the number of units subsidized or harming families. Blending targeting requirements is a second method that could be adopted to accomplish these purposes in this fashion.
Set Rents at 30 Percent of Annual Income

- In the United States, gross rent averages 35 percent of income.

- Over the past 30 years, gross rent as a percent of income has increased 5 percent, so the standard has changed.

- PHADA’s proposal leaves gross rent at 30 percent of income, but eliminates deductions.

- Underfunded housing programs cannot afford to pay for medical or child care costs.

- Potential to raise close to $1 billion.
Potential Revenue from Rents Based on Annual Income

PHADA has proposed several alternatives for changing the rent structure in assisted housing to simplify income and rent calculation, reduce errors in those calculations and make rents in assisted housing understandable. More recently, as a means of increasing revenues for HAs in the face of rapidly declining federal commitments, PHADA has advocated charging participants 30 percent of their annual income for rent. While previous proposals had been revenue neutral, this proposal would generate additional revenue for HAs and would reduce federal financial obligations for assisted housing. The following discussion estimates the effect on HA revenue and HUD obligations of charging participants rents based on 30 percent of annual incomes. It also includes an estimate based on the Congressional Budget Office’s (CBO) suggestion of using 35 percent of annual adjusted incomes. Currently, participants pay rents based on 30 percent of their adjusted annual incomes.

What Participants Pay Now

As a point of reference, HUD's on line Resident Characteristics Report (RCR) and 12 month report from the Tenant Rental Certification System (TRACS) report a weighted average TTP of $288 per month and a housing cost burden (total tenant payments (TTP) to annual income) of 27.1 percent. For comparison, in a recent publication the Congressional Budget Office (CBO) indicated that unassisted renters with comparable incomes currently pay approximately 40 percent of their income for rent. Recently published American Housing Survey summaries indicate that the average renter’s housing cost burden is approximately 35 percent (presumably of gross income which is comparable to annual income).

Table 1. Current TTPs and Housing Cost Burdens by Program

<table>
<thead>
<tr>
<th>Program</th>
<th>Households</th>
<th>TTP</th>
<th>Burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Housing</td>
<td>1,100,000</td>
<td>$325</td>
<td>28.34%</td>
</tr>
<tr>
<td>Tenant Based Vouchers</td>
<td>2,140,000</td>
<td>$302</td>
<td>28.11%</td>
</tr>
<tr>
<td>Project Based Vouchers and Certificates</td>
<td>55,539</td>
<td>$281</td>
<td>28.03%</td>
</tr>
<tr>
<td>Project Based Rental Assistance</td>
<td>1,259,912</td>
<td>$233</td>
<td>23.89%</td>
</tr>
</tbody>
</table>

Participants in deeply assisted housing programs pay housing costs below the common affordability standard of 30 percent of income and significantly below housing costs borne by all renters and by unassisted renters with comparable incomes.

Incomes and Deductions of Participants Affected

Using information from RCR and TRACS, the weighted average annual income for deeply assisted housing programs is $12,763, and the weighted average TTP is $288 per month. The weighted average adjusted annual income for these programs is TTP divided by 30 percent, or $11,529. The difference of $1,234 is the sum of weighted average deductions for program participants. Marginal income for changes in the rent structure will result from the elimination of these deductions and a commensurate increase in the income used to calculate rents.
Table 2. Income and Deductions by Program

<table>
<thead>
<tr>
<th>Program</th>
<th>Annual Income</th>
<th>Adjusted A.I.</th>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Housing</td>
<td>$13,763</td>
<td>$13,000</td>
<td>$763</td>
</tr>
<tr>
<td>Tenant Based Vouchers</td>
<td>$12,892</td>
<td>$12,080</td>
<td>$812</td>
</tr>
<tr>
<td>Project Based Vouchers and Certs</td>
<td>$12,030</td>
<td>$11,240</td>
<td>$790</td>
</tr>
<tr>
<td>Project Based Rental Assistance</td>
<td>$11,702</td>
<td>$9,320</td>
<td>$2,382</td>
</tr>
</tbody>
</table>

A change in the proportion of income charged for rent will not affect participants paying a minimum rent or flat rent. Based on estimates of minimum rent payers from the Center on Budget and Policy Priorities (CBPP), and assuming that public housing residents whose incomes exceed 80 percent of area median income select flat rents, changing the percentage of annual income charged for rent will affect approximately 4,011,014 deeply assisted housing program participants, or 88.1 percent of participants.

Effects of Charging 30 Percent of Annual Income

Charging public housing residents 30 percent of annual income will result in an increase in rent revenue of $213,669,681. Presuming that rent changes in the first year will occur uniformly throughout the year, the change would produce $106,834,840 additional rent for HAs in the first year. These increases will reduce Operating Fund eligibility following the first year in which changes occur, and so marginal revenue in subsequent years would be the difference between rents collected (estimated as 95 percent of rents charged) and the Operating Fund proration (probably 80 percent at best in 2014). Agencies could collect marginal revenue of approximately 15 percent (the difference between rents collected and the Operating Fund proration) of the marginal rent revenue, or over $32 million. HUD's financial obligation through the Operating Fund would decline by $213,669,681 each year following the first year of implementation. Such a reduction may make it easier for HUD and Congress to propose and enact Operating Fund resources at higher than the current fund proration, further easing fiscal pressures on HAs and their public housing inventories. Public housing residents would pay approximately $19 more per month in rent.

Requiring HCV participants to pay 30 percent of annual income for housing will not result in marginal revenue for program administrators, but it will increase the rent paid by voucher holders by $470,471,014 and reduce HAP obligations by that amount. The change would reduce HAP requirements for PBV subsidized housing by $13,162,743. Participants in the HCV and PBV programs would pay slightly more than $20 per month in additional rent.

Impacts in the PBRA program differ from those in the public housing, HCV and PBV programs. Based on TRACS reports, PBRA participants have higher deductions than participants in other programs and so would see higher increases in rent. However, these households' housing cost burdens would still be 30 percent of income. Participants would pay $60 more per month in housing costs and HUD's obligation for HAP renewal funding would decline by $779,404,216 per year.

In aggregate, requiring deeply subsided housing program participants to pay 30 percent of annual income towards housing costs would reduce federal obligations by $1,476,707,653 annually, reduce fiscal pressures on the HCV program and produce marginal revenue for HAs of $106,834,840 in the first year of implementation and $32 million per year there-
after (this final estimate depends on the ongoing Operating Fund proration). Participants would pay an average of just over $30 per month in additional rent.

Table 3. TTP, Burden and Marginal Rent Using 30% of Annual Income

<table>
<thead>
<tr>
<th></th>
<th>TTP</th>
<th>Burden</th>
<th>Marginal Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Housing</td>
<td>$344</td>
<td>30.00%</td>
<td>$213,669,681</td>
</tr>
<tr>
<td>Tenant Based Vouchers</td>
<td>$322</td>
<td>30.00%</td>
<td>$470,471,014</td>
</tr>
<tr>
<td>Project Based Vouchers and Certs</td>
<td>$301</td>
<td>30.00%</td>
<td>$13,162,743</td>
</tr>
<tr>
<td>Project Based Rental Assistance</td>
<td>$293</td>
<td>30.00%</td>
<td>$779,404,216</td>
</tr>
</tbody>
</table>

Effects of Charging 35 Percent of Adjusted Annual Income for Rent

The CBO recently published suggestions to help constrain federal spending. One suggestion was to charge housing program participants 35 percent of adjusted annual income for rent. The CBO suggested phasing in such a change using an annual 1 percent increase for 5 years. By 2019 when fully implemented, CBO estimated that the public housing, Housing Choice Voucher and Project Based Rental Assistance programs would reduce federal obligations for subsidies by $3.3 billion per year. PHADA has not endorsed this suggestion.

Following is a table summarizing impacts of charging participants 35 percent of annual adjusted income for rent on participants, HAs and by extentions on HUD.

Table 4. TTP, Burden and Marginal Rent Using 35% of Annual Adjusted Income

<table>
<thead>
<tr>
<th></th>
<th>TTP</th>
<th>Burden</th>
<th>Marginal Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Housing</td>
<td>$379</td>
<td>33.06%</td>
<td>$606,750,950</td>
</tr>
<tr>
<td>Tenant Based Vouchers</td>
<td>$352</td>
<td>32.80%</td>
<td>$1,166,520,904</td>
</tr>
<tr>
<td>Project Based Vouchers and Certs</td>
<td>$328</td>
<td>32.70%</td>
<td>$31,212,918</td>
</tr>
<tr>
<td>Project Based Rental Assistance</td>
<td>$272</td>
<td>27.88%</td>
<td>$508,259,676</td>
</tr>
</tbody>
</table>

Conclusion

PHADA has advocated changing the rent structure for deeply assisted housing programs 1) to provide additional resources to support those programs at a time of declining federal commitment, 2) to reduce the federal fiscal pressures created by obligations to provide deep housing subsidies to approximately 4.5 million public housing, HCV, PBV and PBRA program participants, and 3) to simplify rent and income calculation protocols, improve their accuracy and make rents more comprehensible to participants and the public. Although such a step would increase rents for participants in these programs, it would maintain the affordability of those rents and would help program sponsors maintain the quality of the public housing, Project Based Voucher and Project Based Rental Assistance inventories. Under PHADA’s proposal, no household would pay more than 30 percent of income for housing. Such housing cost burdens would remain significantly lower than the burden CBO reports are paid by unassisted renters with incomes comparable to assisted housing participants (40 percent of income), and lower than the burden the American Housing Survey reports is paid by all renters (35 percent).
Proposal #4

Energy Conservation Incentive

- Most housing authorities currently return savings due to energy conservation to the federal government.

- Housing authorities would save more energy if they were given an incentive by allowing them to retain their savings for a certain period of time, after which the federal government’s cost would be reduced.

- Reduced energy conservation is important for the country.

- Moving to work (MTW) agencies, rental assistance demonstration (RAD) conversions and agencies entering into complex contracts with energy service companies and banks already benefit from this incentive.

- Extending it to all housing authorities on a voluntary basis would conservatively save $250 million per year.
Reducing utility consumption in public housing is an important goal in order to reduce program costs, dependence on foreign oil and carbon emissions, and many housing authorities have undertaken energy conservation measures. HAs have many competing goals, however, and have fewer financial resources than they are entitled to receive. As a result, they generally focus their insufficient resources on their core purposes—filling vacant units, making repairs and helping the residents.

A major impediment to energy conservation is that currently the utility funding system does not support reducing energy use. Essentially, housing authorities are paid for the amount they spend. If they spend more, they are paid more; if they spend less, they are paid less. As a result, there is no financial incentive for a housing authority to reduce its energy consumption.

HUD has one program that does provide a benefit to agencies that save energy. If a housing authority partners with an energy service company (esco), or another third party, to borrow capital to implement an energy conservation measure, it can freeze its consumption level at that property for 20 years. In other words, HUD will pay the HA for the current rate of consumption for 20 years, even if it reduces energy use and consumes less energy during that period, but it must devote 75 percent of these savings to repay the loan.

This tool is an important one, and these contracts are valuable, but they are complex, cumbersome, attracted to the low-hanging fruit, and generally only available to larger agencies. Over the 20 year lifespan of this program, it has resulted in saving about 5 percent of the program's utility usage. It appears, at least over the past decade, that that is just about the total amount of reduction recorded by the program, so it seems clear that more can and should be done.

PHADA proposes taking this idea—freezing the rolling base consumption level for 20 years—and applying it across the board to all housing authorities on a voluntary basis.
given a genuine incentive to reduce their energy consumption, because they would be able to keep all the savings they generate and apply them to other eligible housing purposes.

With this proposal, housing authorities would now have a real reason to focus on energy conservation amid all the competing tasks they have to accomplish. They would be able to reap immediate benefits from the many non-capital intensive ways to reduce consumption. These include checking the temperature of domestic hot water, making sure their thermostatic and boiler controls are operating properly, repairing leaks on a timely basis, educating the residents, monitoring vacant apartments and conducting preventive maintenance diligently.

Secondly, they could continue to reduce energy through capital intensive improvements by leveraging private investment with the savings. It would just be easier without having to go through the bureaucratic review and approval process now required. Housing authorities have been managing their capital work since the inception of the program in 1937, and they are perfectly capable of conceiving and carrying through these plans.

Relatively little energy conservation is occurring under the current funding system, outside of the 20 year freeze for escos, so in practical terms, the federal government will continue to pay for current levels of consumption over the next two decades whether it freezes the rolling base across the board or not. So, there is no additional cost to the federal government.

Thirdly, even small agencies would be able to take advantage of this incentive, because there would not be a size threshold determining when energy service contracts are profitable. Finally, housing authorities could use the savings to build up the human capital needed to run a successful and comprehensive energy conservation program. HAs could employ both the managerial staff needed to create, implement and monitor these energy conservation programs, as well as the maintenance personnel needed to manage the properties optimally.

In addition to the benefits a 20 year freeze would provide housing authorities, PHADA also believes it will benefit HUD and the taxpayers. Relatively little energy conservation is occurring under the current funding system, outside of the 20 year freeze for escos, so in practical terms, the federal government will continue to pay for current levels of consumption over the next two decades whether it freezes the rolling base across the board or not. So, there is no additional cost to the federal government. Down the road, though, after 20 years, federal obligations and costs will be substantially reduced, when HUD is able to take advantage of the substantial savings that have taken place.

Although this proposal makes freezing the rolling base consumption level for 20 years voluntary, PHADA believes that the vast majority of agencies will take advantage of a policy that offers them an opportunity to reduce their expenses and retain the savings. Should an agency choose not to participate, again it would not cost HUD anything, because it will
simply continue using the existing system. Agencies should have this option in case there are local circumstances that might increase energy usage, such as labor issues, reduced operating subsidy levels due to being a Harvard cost study decliner or changes in tenant populations and energy consumption beyond the authority’s control.

Similarly, even though PHADA believes that there will be significant reductions in energy usage based on this proposal, it does not tie it to any specific target reductions, with possible sanctions, such as reduced funding, if they are not met. For one thing, HUD will not spend anything more with this proposal, and it already reaps an important benefit from an agency’s participation through its commitment not to increase energy use. Furthermore, every HA is at a different stage in their energy conservation programs, and while some may be able to reduce consumption by 25 percent, others may be so far along that they may not even be able to achieve 5 percent. It also may take different amounts of time to achieve their goals—some accomplishing them more quickly than others. Finally, since capital will be borrowed based on the savings available during a 20 year freeze, it needs to remain in place for the full 20 year period to provide the reliability needed by lenders.
Frozen Rental Income Incentive

- Like energy savings, increased rental income is returned to the federal government.

- If housing authorities could retain their increased rental income on a temporary basis, it could provide significant amounts of revenue to both the authorities and the federal government.

- A three year experiment from 2007-2009 was successful and saw rents increase 4 percent per year vs. the historical average of 2.2 percent.

- The frozen rental income incentive requires no changes to income targeting or rent calculations.

- Over a 20 year time period, a sustained increase of this amount would provide a combined $20 billion in revenue to housing authorities and savings to the federal government.

$4B in Subsidy

$3B in Subsidy

$2.8B in Rents

$3.8B in Rents

Increasing rents will lower subsidy cost.
HUD Should Reset the Frozen Rental Income Provision for Three Additional Years

**Rental Income for the Program Has Increased Since Innovative Idea Introduced**

The operating fund rule included an important idea that was designed to stimulate rental income growth, and thus reduce subsidy needs, for the public housing program. By freezing reported rental income at the 2004 level for a three year period from 2007-2009, this provision created an incentive for housing authorities to increase their rental income, since they would be allowed to use the increase for housing purposes.

In fact, rental income has increased, indicating that this concept may have succeeded in reducing overall subsidy needs for the program. Since the operating fund has not received 100 percent of its eligibility, though, there has not really been any extra revenue for housing authorities. Nevertheless, this proposal still holds the promise of providing additional revenue to housing authorities to make up for the long-standing operating fund shortfalls they have experienced. As a result, the three industry groups, PHADA, CLPHA and NAHRO, have sent a formal request to HUD to extend the provision for an additional three years from 2010 to 2012.

**Provision Designed to Help Transition to New Operating Fund Rule**

One of the main concerns of implementing the Harvard cost study was that one-quarter of the housing authorities had their funding reduced. In addition, housing authorities were being asked to undertake a significant operational change by converting to asset management. As a result, negotiators were sensitive to the fact that all housing authorities would need additional funding and that the 800 declining agencies would have an even greater need.

Two mechanisms were put in place to help resolve this problem. The first was a process by which declining agencies could stop their losses by converting to asset management in an expedited time period. Even this mechanism, though, provided only partial assistance, because these agencies would still continue to be funded at their lower property expense levels (PELs), while, if they successfully converted to asset management, being provided with a transition funding amount that was set in absolute terms which, since not pegged to inflation, would become less and less valuable with each passing year.

In addition, the industry groups asked HUD to appropriate funding specifically to assist agencies
in the conversion to asset management. Although HUD refused to provide any dedicated funding, it supported instead the innovative idea of freezing rental income for three years in HA subsidy calculations. In addition to potentially providing extra income to housing authorities, HUD believed that this provision would eventually result in reduced federal subsidy obligations.

Operating subsidy is the difference between total eligibility (the PEL plus the utility expense level (UEL) plus the add-ons) and rents. If rents increase each year, subsidy requirements are reduced by a corresponding amount. If rents are frozen at a specific amount—the 2004 level in the operating fund rule—then subsidy requirements will be larger than they would otherwise have been. In theory, the larger subsidy, combined with the actual increased rents, provides housing authorities with more revenue than they would have had had the rental income not been frozen.

If a housing authority's total eligibility was $400 PUM, and its rental revenue was $200 PUM, its subsidy would be $200 PUM, giving it $400 PUM in revenue. If, the following year, its eligibility increased to $410 PUM and its rental income increased to $206 PUM, it would be entitled to a subsidy of $204 PUM, giving it $410 PUM in revenue. However, if the rental income level had been frozen at $200 PUM, the authority would have been entitled to a $210 PUM subsidy, giving it $416 PUM in actual revenue ($206 in rents and $210 in subsidy). Freezing the rental income in this example would provide this authority with $6 PUM more in revenue than it would have received otherwise. The provision was thus designed to enable agencies with increasing rental income to have additional revenue.

Unfortunately, this theory did not work out in practice, because housing authorities have not received 100 percent of their subsidy eligibility during the period that rental income has been frozen. Since they did not get their full subsidy eligibility, their increased rental income has only gone towards getting them somewhat closer to the amount of revenue they would have had had HUD provided 100 percent of the operating fund subsidy under normal calculations. Contrary to intentions, the frozen rental income provision has not provided the public housing program with more revenue than the program's total eligibility amount.

Nevertheless, freezing the rental income still benefitted individual housing authorities whose rental income was increasing. Such housing authorities whose subsidies were prorated down to some number in the 85 percent range would still have made more revenue than if their rental income had not increased. During the three year frozen rent period from 2007-2009, individual agencies have had an incentive to increase their rental income, even though they still might not have enjoyed as much revenue as they would have had the program been funded at 100% eligibility without freezing rental income.

**Total Rental Income During the Frozen Rental Period**

Although it is not possible to make a direct causal relationship between rental income and the frozen rental income provision, nevertheless, early results appear to indicate that rental income has increased more than normally during the period that the frozen rental income provision has been in effect. From 2001-2004, for instance, rental income increased at a 2.1 percent rate annually, generally in accordance with historical averages. From 2005-2007, though, during a period when the frozen rental income provision was public knowledge and then in effect, rental income increased at a 4 percent annual average, going up 4.6 percent in 2007. More recent data is not yet available. Since this information supports the theory that the frozen rental income provision's incen-
tive to HAs would result in an increase in rental income, this preliminary data validates HUD’s belief that this concept would reduce federal subsidy obligations in the long run. Thus, it would appear to be in HUD’s best interests to extend the frozen income provision for another three years to continue this progress.

The Obama campaign pledged to return the public housing operating fund to 100 percent annual funding. If it can achieve this promise, extending the provision will be a win-win for the housing authorities and the federal government. HAs will have an opportunity to increase their revenue to make up for the years of shortfalls, and HUD’s subsidy obligations will decrease over time.

There are some who believe that extending this provision might be harmful to residents, because it provides an incentive to housing authorities to increase rental income. It should be pointed out, though, that this provision does not affect any existing rent calculation requirements. Residents still have the choice of paying 30 percent of their adjusted income as rent. This provision has no effect on the rent tenants making this choice pay. Similarly, flat rents will continue to be based on market comparables. There is nothing in this provision that affects that requirement.

There are also those who argue that the frozen income provision might lead housing authorities to admit residents with higher incomes. This provision, however, makes no change to the existing targeting requirements. Extremely low-income residents must continue to make up 40 percent of the new admissions of public housing agencies. Decisions an HA might make to increase rental income, such as establishing a priority for working families, are currently allowable regardless of this provision and would undoubtedly be thoroughly reviewed from all policy perspectives by a local community prior to an HA taking such a step.

Another consideration is the fact that the country is in the midst of a recession, which may well negatively affect resident incomes and rents, at least in some communities. The operating fund rule, though, specifically allows an agency to appeal its formula income due to economic hardship. Section 990.245 (b) reads, “After a PHA’s formula income has been frozen, the PHA can appeal to have its formula income adjusted to reflect a severe local economic hardship that is impacting the PHA’s ability to maintain rental and other revenue.” Therefore, a community experiencing economic hardship and, as a result, declining rental revenue, has the ability to appeal its frozen rental income.

In the light of all these factors—increased revenue for housing authorities, reduced subsidy obligations for the federal government, maintenance of existing targeting and rent requirements, and a viable appeal mechanism—PHADA, CLPHA and NAHRO have made a proposal to HUD to reset the frozen rental income amount at 2007 levels, rather than 2004, for the three year period from 2010 through 2012.

The formal proposal reads as follows, “Starting in the 2010 calendar year funding cycle, (the industry groups) propose resetting the rental income amount at a housing authority’s fiscal year ending in calendar year 2007, i.e. 3/31/07, 6/30/07, 9/30/07 and 12/31/07. These amounts would be established as a per unit month (PUM) cost based on occupied unit months. The PUM amount would then be frozen for three years, 2010, 2011 and 2012 and applied to the housing authority’s occupied unit months each year.”
Frozen Rental Income Provision Lapses in 2010

Latest HUD Data Show Continued Rental Revenue Gains in 2008

The operating fund provision that froze rental income at the 2004 level during the 2007-2009 period will not be in effect for the 2010 calendar year. For 2010 subsidy calculations, housing authorities will use 2009 rental income amounts. The increased rental revenue will affect subsidy levels and may even result in a lower subsidy eligibility than 2009 for authorities that have increased rental revenue at an exceptionally rapid pace.

HUD's most recent rental revenue data, reported in its “Explanation of initial calendar year 2010 obligation” shows that in 2008 rental revenue continued to increase at faster than historic rates. This result indicates that the frozen rental income provision has been a success and has the potential of both reducing federal funding requirements and increasing housing authority revenue. PHADA estimates that continuing this program could generate $5 billion over the next nine years over and above the amount of resources that would have been available had it never been begun. For this reason, PHADA, CLPHA and NAHRO have called on HUD to reset rental income levels for subsidy calculation purposes at the 2007 level for another three years.

Although HUD did not adopt this recommendation for 2010, the frozen rental income provision appears so promising as a revenue source in a time of budget deficits that HUD should reconsider adopting the industry recommendation for the 2011-2013 budgets. It is also important to note that this provision affects neither the Brooke amendment, so that resident rent payments are still capped at 30 percent of income, nor income targeting requirements that 40 percent of new admissions be extremely low-income.

Rental Income Increases Have Almost Doubled Historic Averages

HUD has reported that 2008 rental income was $211 per unit month (PUM), which means it has increased at a 4.0 percent average per year since the operating fund negotiated rule-making committee adopted the frozen income provision in 2004, when the PUM was $182. During the 2001-2004 period, prior to the frozen income provision, rental income increased at a yearly average of 2.2 percent. Thus, rental income has increased at a pace that is almost twice as fast since 2004 than before. This result should cause policy makers at the Department and the Hill to take notice.

It cannot be said for certain at this point that this increased rate is due solely, or even primarily, to the frozen income provision. Other variables, such as national employment and wage rates, or utility costs, could play a role. Nevertheless, the timing is so coincidental, and the effect is so pronounced, to make a strong case that the frozen income provision is worth both continuing in the short run and then studying in a comprehensive manner over a longer period of time to determine whether it should become a permanent component of the operating fund.
The Potential Financial Effect of Resetting Rental Income Every Three Years--$5 Billion

The frozen rental income provision has the potential to be beneficial both to the federal government and to housing authorities. Had the Department adopted the industry group recommendation of resetting rental income at the 2007 level for 2010 (and then resetting it again every three years thereafter) and had rental income continued to increase at a 4.0 percent annual increase compared to the 2.2 percent historic average, the Department’s subsidy obligations would be reduced by $500 million during the nine year period from 2010-2018, while housing authorities would have $4.5 billion more in revenue to maintain their public housing compared to amounts if the provision had never been enacted. These extra sums would be the equivalent of increasing the operating fund by about 10 percent. The total increase in revenue, for both the federal government and the housing authorities comes to $5 billion over nine years. The savings are even larger over a twenty year period.

The table on page 33 shows what rental income would have been like had the frozen income provision never been implemented, compared to what rental income could be if it had been continued in 2010.

These numbers are truly compelling. For instance, in 2010, freezing the rent at the 2007 level is virtually identical to the amount rent would have been in 2010 had there been no frozen income provision, therefore costing the Department virtually nothing. Yet, housing authorities would have $300 million more in revenue than they would have had had the frozen income provision never existed.

By 2013, HUD would be saving more than $100 million in subsidy payments, while HAs would receive $360 million more in revenue. By 2016, these numbers would grow to more than $250 million in savings for HUD and $410 million more in revenue for housing authorities. This dynamic creates a win-win situation for HUD and the housing authorities as well as for the residents, who could enjoy improved housing conditions due to greater resources.

It may be too early to declare the frozen income provision a financial success, but it is clearly a mistake to end it without having an opportunity to determine its long term potential to reduce federal expenses and increase HA revenue.

HUD Should Undertake Research to Determine the Causes for Increased Rental Income

The Department should begin a serious study to examine the effect of the frozen income provision on rental income. First of all, it should try to examine the historical rate of increase for a longer period than then 2001-2004 one used in this analysis. Secondly, rental income is not a direct reflection of tenant income, because rental income reflects policies such as utility allowances and flat rents. Total tenant income, therefore, should also be examined, along with the effect of utility price increases and the implementation and utilization of flat rents.

Other public housing policies will also affect rental income, including the elimination of federal preferences, the establishment of a minimum rent, the income targeting goal that requires that 40 percent of new admissions be extremely low income and the authorization
### Frozen Rental Income Provision’s Revenue Potential

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent PUM without frozen provision</th>
<th>Rent Level Resetting Amount Every 3 Years</th>
<th>(Cost) Savings to HUD (millions)¹</th>
<th>Rent PUM with frozen provision</th>
<th>Savings to PHAs (millions)²</th>
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<tr>
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<td>Total Savings</td>
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<td>$9,170.9 billion</td>
<td>$12,414.7 billion</td>
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</table>

¹ compares rent levels assuming no frozen rental income provision to rent levels reset every three years
² compares projected rents to frozen rents
³ projected at historic 2.2% growth rate
⁴ projected at historic 4% growth rate
of local preferences. As mentioned, national employment and income trends should also be compared to public housing rental income. The effect of all of these variables should be examined in this research.

Finally, case studies of HAs which have significantly increased rental income should be conducted in order to develop a list of best practices. A comparison with tenant-based Section 8 income levels, taking into account relevant policies, such as income targeting, would be another avenue for investigating the effect of the frozen rental income provision. The frozen income provision was a bold step taken by the Department to test whether or not federal financial commitments could be reduced long-term by providing housing authorities an incentive to increase rental income. Four years into this experiment, the idea appears to be working well. Given the financial constraints facing Washington, HUD should adopt the industry proposal to reset the rental income level for the next three years and conduct a well thought out research project to determine the role of this trial policy on the recent increase in rental income.
Proposal #6

Moving to Work Expansion

- Agencies would continue to serve the same number of families.

- Income targeting and rent burdens would be similar to existing law.

- Provides an incentive to find other non-federal funding sources to serve low-income families.

- Fungibility between the public housing and voucher programs.

- Can reduce voucher use up to 15 percent temporarily with HUD approval to provide capital resources for public housing repairs.

- Can waive rules and regulations, not directly affecting tenant rights, to streamline operations and generate cost savings.

- Tight restrictions on work requirements, rent changes and time limits.

- MTW is a time tested program that has improved agencies, housing stock and resident choices for more than 15 years.

Chicago Housing Authority, Robert Taylor Homes, before and after the MTW-aided plan for transformation.
Moving to Work (MTW) Expansion Would Help Save Assisted Housing Programs

Federal Disinvestment Can Be Compensated for by Innovative Program

It is an inconvenient truth that the federal government is progressively abandoning its commitment to fund the nation’s public housing program. In 2013, the operating fund has an 82 percent proration, and the capital fund receives less than half of what is needed just to make one year’s worth of repairs. HOPE VI is long gone. In addition, Congress no longer funds all of the vouchers it has authorized and it has stopped paying an adequate amount to administer the vouchers it does fund. The result of this abandonment is the loss of hundreds of thousands of affordable housing units and the prospect of further substantial losses in the years to come.

It does not need to end up this way. There is an actual program, Moving to Work, authorized for more than 30 housing authorities, including some of the biggest in the country, that incorporates a funding and operating model that allows agencies numerous opportunities to stretch their federal dollars. There are multiple ways, using today’s current funding levels, that these authorities can save and make money while still serving substantially the same number of families. If applied more broadly to additional HAs, MTW has the potential to rescue the country’s assisted housing programs.

MTW’s Funding Structure

There are several important features of MTW that make it possible to stretch and make better use of federal funds. The first is that a housing authority has the ability to negotiate a funding structure that locks in funding for the life the contract. Secondly, MTW allows agencies to waive provisions of the 1937 act, giving them many options to reduce costs. Thirdly, agencies must serve substantially the same number of families meeting the income requirements, but there is flexibility in the way in which these families are served. Finally, the agency’s section 8 and section 9 (public housing) funding is fungible between the two programs.

Not all MTW agencies have the same funding structure, as the final arrangement is a nego-
tiation between the authority and the Department. Nevertheless, a number have a structure that works somewhat like a block grant. The operating subsidy is set at the base year per unit month (PUM) eligibility and funded from then on assuming 97 percent occupancy and adjusted annually by the inflation factor and the national proration level. The capital fund continues to be funded as it would be normally.

The utility subsidy is based on a utility consumption level that is frozen for the life of the demonstration and paid for using actual utility rates each year. With utility consumption levels frozen, the housing authority can benefit from any reduction in consumption that it can put into place. This provision is an especially promising way for MTW agencies to reduce costs as some experts believe that energy consumption in older residential buildings can be reduced by as much as 30 percent using the most effective available technology.

For tenant-based Section 8, HUD and the agency agree on the number of vouchers that will be included in the MTW program and this number is held constant each year (except for any incremental awards). Then the average cost of a voucher in the base year is calculated. Each subsequent year, the voucher subsidy is the number of MTW vouchers times the average cost times the inflation factor.

The key is that each year MTW agencies with this funding arrangement are provided with a fixed amount of money, established using base year calculations and dependent only on national prorations. As with the utility subsidy, any savings that an agency can create remains with the agency to use for other housing related purposes. This arrangement provides an incentive for agencies to find ways to save money, and the savings in turn allow the agencies to make up for the annual funding shortfalls agencies are facing.

Serving Substantially the Same Number of Families

MTW requires an agency to serve substantially the same number of families, with a more relaxed income targeting standard, though, than is in place for non-MTW agencies. Thus, if an agency can find a way to house families eligible for the program in a non-traditional setting that costs less money than public housing or section 8, it retains the cost difference which can then be used for other expenses.

The requirement that MTW agencies serve substantially the same number of families offers them an incentive to develop affordable housing for eligible families in innovative ways because the HA can then use the funding provided for these units in ways other than providing a direct subsidy.

It is not easy to house income eligible families less expensively than the cost in public housing or the voucher program, but it is possible. For instance, a housing authority might develop a low-income housing tax credit (LIHTC) property. Rents at the property might be set at a lower rate than the average voucher program rent, and so families living in the LIHTC property, even if they were using vouchers, would count towards the total number of families served, but at a lower cost. The agency would continue to be funded at its baseline level and could use the differential for other housing purposes.
Another method might involve using project based vouchers. An HA might offer a developer project based vouchers for 25 percent of the units in a new 100 unit development. As part of the offer, the HA could require the developer to set aside another 10 percent of the units at affordable rents. To the extent that income eligible families moved into the additional 10 units, the housing authority could count them towards its serving substantially the same number of families, but since it is not providing a financial subsidy, it can use the money it normally would have spent on those 10 families for other housing purposes.

There are other creative ways to develop affordable housing. Some HAs have been able to use the Neighborhood Stabilization Program (NSP) to acquire vacant homes, fix them up and then continue to rent them to low-income families. If the family meets the income eligibility criteria, it could count towards the HA’s goal of serving substantially the same number of families. Housing authorities may also be able to participate in CDBG or HOME programs with their municipalities that might lead to additional affordable housing.

The requirement that MTW agencies serve substantially the same number of families offers them an incentive to develop affordable housing for eligible families in innovative ways because the HA can then use the funding provided for these units in ways other than providing a direct subsidy. The federal government continues to get value for its funding, because the HA is assisting the same number of households. In fact, the federal government gets more value, because the housing authority can use the newly available money to supplement the areas that HUD has not funded, such as the public housing operating and capital funds, the voucher program or voucher administrative fees. As a result, the federal dollar goes farther.

**Voucher Program Costs**

The fact that voucher funding can be held steady from year to year also offers opportunities to save money for other purposes if the average cost per voucher can be lowered. Section 8 program managers know that the cost of a voucher is based on a number of variables, and if one or more of them can be changed, the cost will also change.

Certainly, one of the most important variables is the income of the participant. If housing authorities can successfully assist participants to increase their income, as many of them try to do currently, and the cost per voucher declines, this MTW funding formula allows the agency to keep the savings. (Non-MTW agencies receive less funding if the average cost per voucher declines.) Participant income could also be affected by the use of preferences, such as a preference for working families, or even going as far as establishing a work requirement which is currently allowed under MTW. Agencies could also pay closer attention to meeting, but not exceeding income targeting standards.

Rent is another important variable. Clearly, one of the most important factors in determining rent is the discretion a housing authority has in setting the payment standard. Housing authorities with MTW status can pay close attention to their payment standard, along with any effect a change might have on participants. Jawboning landlords is another important component in determining rents levels. In many cases, an HA can bring rents down by explaining to landlords that the rents are not comparable to other market prices. Housing authorities have a greater incentive to take this extra step in MTW, because they can use the savings.
Playing a more active role in assisting voucher holders in their apartment search can be an additional way of having an effect on rents. An HA might have the resources to provide more hands on assistance in MTW where it can keep the savings from identifying good quality, lower rent apartments.

The rent structure itself is another area where costs can be controlled. Existing MTW agencies can implement alternative rent structures, and most of them have. These range from different minimum rent standards to tiered rents to stepped rents to flat rents. The MTW evaluation by the Urban Institute found no harm was caused to residents by using these alternative rent structures.

The fact that MTW allows agencies to be paid a fixed amount for their voucher program offers agencies an incentive to reduce the cost per voucher. The money that is saved can be used for other housing purposes, including additional vouchers or even capital repairs in the public housing program, since the money is fungible. The federal government only benefits, since it continues to pay the same amount it is paying currently, except for inflation, while generating extra money that can supplement unfunded areas. No harm has been done to the residents, and even if some might have to pay something more towards their rent, it may mean that additional income-eligible families are helped that would not have been otherwise.

**Other Cost Savings**

The ability to reap substantial savings from reduced energy consumption has already been mentioned. In addition, MTW allows agencies to get relief from virtually any component of the 1937 Act, and so housing authorities can devise almost unlimited ways to reduce expenses. Some of the most important, such as triennial recertifications for elderly residents and biannual apartment inspections are well documented. Reinspections done in an 8-20 rather than 12 month period are another example which allows for more rational grouping and reduced expenses.

Rent simplification—using a tiered rent structure or gross, rather than adjusted, income—are methods adopted by some MTW agencies to reduce costs. Third party verification can be made easier and self-certification can be used more frequently, such as in the case where there is a $0 housing assistance payment (HAP) or when assets are below $50,000. In some instances, MTW agencies are denying portability. If an MTW agency has an idea on how to save money, it can put it in its annual plan and have HUD review it. All of these administrative savings add up, and can be redirected into other housing purposes.

All in all, the savings that can be generated by reducing energy consumption, housing families in non-traditional ways, reducing voucher costs, reforming the rent structure and implementing administrative efficiencies will mount up to a substantial sum.
stop the hemorrhaging in assisted housing funding and be used to renovate neglected properties, provide additional vouchers and help residents. For these reasons, PHADA calls on Congress to enact this proven, common sense, no cost solution as soon as possible.

The MTW Stakeholder Agreement

Last year, HUD, the three industry groups, PHADA, NAHRO and CLPHA, along with two tenant advocacy groups, the Center on Budget and Policy Priorities (CBBP) and the National Low-Income Housing Coalition (NLIHC) reached an agreement on an MTW expansion. This agreement is different from the original MTW demonstration, as the advocate groups are fearful of the potential changes to rent structures, time limits and work requirements that are possible currently as well as the risk of losing vouchers posed by fungibility.

Nevertheless, the stakeholder agreement continues to hold considerable promise for resolving the funding crisis assisted housing programs are currently experiencing. It called for a significant expansion of the program to a possible total of about 900,000 additional voucher and public housing units combined. To satisfy the advocates, restrictions were agreed to in the areas of rent reform, time limits and work requirements along with a strict definition of substantially serving the same number of families. Within those parameters, though, substantial savings can still be generated.

First of all, with HUD permission the agreement allows up to 15 percent of section 8 funds to be used temporarily to renovate public housing and 10 percent to be used for resident services. Secondly agencies that can develop new affordable housing in creative ways that serve the eligible population without undue cost burdens can still count those units towards the number of families they house and therefore benefit from using those subsidies for other housing purposes. If voucher costs can be restrained through lower payment standards, increased resident incomes and lower landlord rents, the HA continues to benefit from the reduced costs.

Savings derived from energy conservation can stay at the HA, and most changes to the 1937 Act remain permissible, allowing much of the administrative efficiencies that are currently possible. In the agreement, more radical changes to rent structures, time limits and work requirements can be tested on a restricted number of residents at a select number of agencies under rigorous research criteria. The results of these experiments will be important, and if successful in producing outcomes that are seen to be beneficial to the program have the potential of becoming eligible to a wider group of agencies in a number of years.

Currently, the stakeholder agreement has not been introduced in Congress. As a compromise, it faces resistance from those who think it allows too much flexibility to those who do not believe it provides enough. Since it is such a carefully crafted compromise, PHADA and others are urging lawmakers not to alter it in any significant ways.

It is a well thought through way forward and a way forward is critically needed. The assisted housing programs cannot continue to undergo increasingly severe funding cuts year after year. Even in a time of tight budgets, Congress can expand this successful program, which has been in place for almost two decades, and unleash housing authority creativity, generating the necessary additional revenue at no cost to the federal government.
PHADA and NAHRO believe that by implementing the reforms suggested in the SHARP proposal, small housing authorities will be able to spend more time with their residents and less time on burdensome paperwork.

- Common sense legislation.
- Only 10 percent of the funding.
- According to HUD, public housing in small housing authorities is among the best managed.
- An agency with 200 units should not have the same regulatory structure as one with 200,000.
- Reporting to HUD is modeled after reporting requirements of private sector managers of affordable housing.
- Allows fungibility between public housing and voucher programs.
- Simplifies evaluation system to one measurement each for physical, financial and management areas.
- Allows some small housing authorities to test a limited set of new rent structures.

Proposal #7
Small Public Housing Agency Reform
A Small HA Reform Proposal Based on a HUD Commissioned Report

PHADA and NAHRO, with the support of the Housing Authority Insurance Group, have developed a proposal for comprehensive small housing authority reform that has been described in several Advocate articles. The associations have begun discussing this reform proposal with congressional staff and senior staff of HUD’s Office of Public and Indian Housing.

In 2008, HUD published a report concerning small HA reform entitled, “Rebalancing HUD’s Oversight and Small PHAs’ Regulatory Burdens.” That report assessed characteristics of agencies with small inventories of public housing and Housing Choice Vouchers, the impact of federal oversight on those agencies, and alternatives available to the department to reduce burdens on small HAs and on the department. These alternatives would not appreciably increase risks to the federal government. HUD’s report concluded that, “For core compliance monitoring, HUD’s level of effort for small PHAs is grossly disproportionate to the level of risk, total units involved, and subsidy dollar volume.”

“For core compliance monitoring, HUD’s level of effort for small PHAs is grossly disproportionate to the level of risk, total units involved, and subsidy dollar volume.”

Among the matters considered by that report was the definition of small agencies. For some time, HUD has considered programs with fewer than 250 assisted housing units as small, but HAs could operate small public housing programs and large HCV programs, or vice versa. Congressional appropriations committees have extended an exemption from HUD’s asset management requirements to cover HAs with fewer than 400 public housing apartments, and in 2008, Congress included agencies with fewer than 550 combined public housing and HCVs in the administrative relief included in the Housing and Economic Recovery Act. At the moment there are many different definitions of small agencies.

IBM’s HUD-commissioned report advocates that, “HUD needs a simple descriptor for defining “small” PHAs,” and goes on to suggest, “Adopting this approach, HUD could have a single classification for “Small” that includes all PHAs with a combined total fewer than 550 units.” These agencies have small budgets and staffs by Small Business Administration standards, manage at least 2 complex programs and operate generally smaller properties.
What Small Agencies Look Like

Approximately 3,100 agencies manage 550 or fewer assisted public housing apartments and HCVs. Although these agencies comprise a significant majority of all agencies, they manage less than 20 percent of the inventory of public housing and HCVs and account for about 10 percent of federal funding devoted to these programs.

These small agencies each manage an average of approximately 150 assisted housing units, fairly evenly divided between public housing units and HCVs. Approximately half operate only public housing, 740 manage only HCVs, and 730 manage both public housing and vouchers. Agencies that manage both programs operate larger programs than HAs operating only one type of program. Agencies with both programs manage approximately 145 public housing apartments and almost 130 HCVs for a combined program of 375 assisted housing units. The 1600 HAs that only manage public housing operate an average of 95 public housing apartments, and the agencies that manage only vouchers administer an average of 178 HCVs apiece.

This disproportionality between requirements and results consumes scant resources of small HAs with little or no clear benefit.

Geographically, small agencies are widely distributed among the states. Texas has 353 small agencies or slightly more than 11 percent of the total. Georgia, Louisiana, New York, Arkansas, and Minnesota include between 130 and 160 agencies each and 8 other states include between 100 and 130 small agencies. Only 3 jurisdictions lack any small agencies, Alaska, Guam and Hawaii where 1 or 2 agencies manage substantial proportions of assisted housing. Half of the states with more than 100 small agencies are southern, but Kansas, Minnesota, Michigan, Massachusetts, Nebraska, New York and Wisconsin also have large numbers of small agencies. On average, each state includes approximately 60 small agencies, 32 of which manage only public housing, 14 of which manage only HCVs and 14 of which manage both programs.

Monitoring, Oversight and Regulation

Despite their relatively meager share of the inventory and program budgets, small agencies are subject to regulations, oversight, monitoring and control similar to the approximately 1,000 agencies that manage most of the inventory and consume 90 percent of the programs’ budgets. IBM reported to HUD, “... small public housing authorities have all the same regulatory and administrative constraints of medium and large PHAs.”

Problems for HUD

This “one-size-fits-all” approach causes problems for HUD. In particular, it results in a mis-allocation of resources to HAs that pose little national threat to program integrity, actually increasing HUD’s overall risks. IBM’s report to HUD indicates that HUD devotes 2/3rd of its oversight efforts to small HAs that use 10 percent of the public housing and HCV budgets. Due to oversight requirements and HUD’s human resources capacities, the department has had a difficult time completing its oversight and monitoring tasks and has found it necessary to use contractors for these purposes (e.g. REAC inspections, performance based contractors for Section 8 Project Based Assistance oversight). Yet the department continues with ef-
forts to further expand these obligations to oversee the operations of program sponsors (e.g. ARRA monitoring requirements and possible future PHAS management review protocols).

**Problems for Participants**

In addition to problems for HUD, oversight and monitoring practices cause difficulties for participants that detract from positive impacts of assisted housing.

**Complexity**

A number of reports for the department have pointed out that complex policy implementation makes programs difficult for participants to understand. Without understandable policy, program outcomes can appear capricious, unfair or inequitable. Reform can make policy implementation simpler and redirect scarce resources to informing participants better than can occur now at small HAs.

**Resources Diverted to Compliance and Monitoring Do Not Directly Benefit Participants**

Small HAs with small staffs must attend to HUD’s monitoring requirements and have fewer resources to direct to maintenance, property improvements and resident services that directly benefit participants. Reform can make resources available to benefit the lives of participants and their families without increasing HUD’s program risks.

**Participants Cannot Influence Federal Policy Directly**

Small HA reform can improve local agencies’ range of discretion and significantly increase participants’ access to local policy makers. Vesting as much decision making authority as possible locally within broad federal policy guidance will improve the effective voice of participants in the ways HAs implement assisted housing policies in their communities.

**Problems for HAs**

HUD’s oversight regime causes problems for HAs that mirror those faced by participants and the department. Complex policy implementation raises the likelihood of errors, diverts resources from property management and resident services to monitoring and compliance requirements, and takes away from small HAs’ attention to mission related activities. Increasingly detailed and intrusive federal policies lead to participant and agency frustration. Small HAs may have more difficulty tailoring programs to meet local needs and preferences.

IBM Business Consulting Service’s report on HUD’s oversight practices indicate that “one-size-fits-all” program policies and procedures result in disproportionate administrative burdens for small HAs and their underutilization of other HUD funding resources. This disproportionality between requirements and results consumes scant resources of small HAs with little or no clear benefit.

**Reform and its Benefits**

In its report, IBM has made a series of suggestions to deregulate small HAs and to reform
its approach to monitoring and oversight. The report’s suggestion are that:

- HUD should reform its small agency monitoring and oversight so that small HAs consume HUD's oversight capacity in proportion to their housing inventory and funding.
- HUD should dramatically reduce the regulatory and administrative burdens on small agencies, which have limited resources.
- HUD should consider enlarging its definition of small HAs to include more agencies in streamlining and deregulation.

Since problems afflict program participants, HAs and HUD, benefits of reform benefit each group.

**Benefits to participants**

If programs become more comprehensible, participants may understand program benefits more clearly, and they may come to believe that assisted housing programs treat participants equitably. Reform can also refocus human and fiscal resources on the core tasks of housing maintenance, physical improvements and services that benefit participants directly. Finally, reform can make local decision making and decision makers more accessible to program participants than federal legislators and HUD staff who currently determine details of program implementation. Participants may find programs more responsive and more nimble.

**Benefits to HUD**

Reform of oversight and regulation of small HAs will reduce resources HUD requires to monitor small HAs. Resources no longer required for small agency monitoring may be reallocated to tasks central to HUD’s success such as IT management or monitoring organizations that pose higher levels of risk to the federal government. HUD's staff and financial capacity may prove more adequate to the task of a reformed set of monitoring and oversight responsibilities and the department may be able to curtail its dependence on contractors.

**Benefits to Housing Authorities**

Reform of HUD’s oversight and regulatory regime may reduce HAs’ resources devoted to compliance. Those resources may be devoted to activities directly related to fulfilling the agencies’ and the programs’ central mission. HAs may find it easier to tailor programs to fit local needs and preferences more closely, potentially providing participants and communities more satisfaction with assisted housing programs.

**An Assisted Housing Industry Reform Proposal**

This proposal to reform the regulatory regime applicable to small HAs includes many of the suggestions in IBM Business Consulting Service's HUD commissioned report. The proposal would:

1. Define small agencies as those with fewer than 550 public housing apartments and Housing Choice Vouchers combined,
2. Reform HUD’s oversight and monitoring processes,
3. Provide administrative and regulatory relief,

4. Test reformed rent structures in a demonstration, and

5. Encourage housing development.

PHADA and NAHRO have begun advocating for this small HA reform with congressional staff members and with senior HUD administrators. The associations’ members should urge their congressional delegation to consider PHADA’s and NAHRO’s proposal as a vehicle to relieve small HAs of disproportionate and less than productive administrative overhead. PHADA has developed a tool kit for members to use available on PHADA’s web site at http://www.phada.org/news_archive.php?topic=29 or from a link on PHADA's home page.
Proposal #8

Rental Assistance Demonstration (RAD)

- Needs a rent structure to help voluntary conversion of properties with significant capital requirements.

- Extra funding for these rents must be appropriated and not taken from other public housing accounts.

- The demonstration should focus on preserving public housing properties and not incorporate other controversial ideas such as mobility and regionalization.

Here are the loan terms we can offer the housing authority.
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 prorations, 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.

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 flexible 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.
Principles for Recapitalizing and Preserving the Public Housing Stock

PHADA News September 15, 2010

The public housing portfolio is an irreplaceable public asset, much of which is at significant risk of being lost due to enormous capital backlogs. A recapitalization initiative based on conversion is critical to preserving many of these properties. At the same time, policymakers should not view conversion as the solution for the entire inventory. These are the principles which should guide the preservation of public housing:

1. Public housing authorities (PHAs) should have the option to convert appropriate public housing properties, on a voluntary basis, to other affordable housing subsidy models with adequate, predictable, and reliable funding including project-based Housing Choice Vouchers (HCVs) or project-based Section 8 Rental Assistance administered by HUD’s Office of Housing. PHAs should have the flexibility to choose which project-based subsidy to use for each conversion.

2. A new conversion initiative must have as its overriding priority the preservation of public housing assets. Should policymakers choose to pursue other collateral goals (such as the regionalization of voucher administration or the expansion of resident choice/mobility beyond requirements currently in effect under the existing project-based subsidy forms), new policies intended to advance such goals should be considered separately from any preservation initiative.

3. HUD should propose and the Congress should provide full funding for the Operating Fund and Capital Fund. Initial property conversions should be funded separate from and supplementary to full funding for the operating and capital costs of public housing. PHAs that opt not to convert public housing developments must not have their future operating and capital funding reduced to offset the costs of conversions.

4. All PHAs should have sufficient and timely access to a range of flexible tools capable of addressing the unmet capital needs of developments. Financing options should include tax credits, debt financing, credit enhancements (e.g. FHA insurance, other federal guarantees), direct grants, and other resources.

5. Any preservation program should maintain low-income housing use restrictions and public control of converted assets. Use restrictions should be coterminous with the contract. In the unlikely event of foreclosure, policies should be put in place that protect tenants by maintaining public control of the assets and, when necessary, providing suitable alternative housing with project-based assistance.
6. A new conversion initiative must ensure a rent that is adequate to pay for all operating expenses, including any taxes or payment in lieu thereof, all debt service, a sufficient level of reserves, and the full costs of other federal requirements imposed from time to time on PHAs with respect to the operation of their projects.

7. Any new preservation initiative involving conversion should ensure fungibility of net operating income among converted and non-converted properties within a PHA's portfolio.

8. Under conversion, costs unrelated to property operations (e.g. costs for contracted oversight, application fees) should be separately funded.

9. A new conversion-based preservation initiative should feature a reasonably sized initial implementation phase, and HUD should be required to employ a selection process that ensures the participation of a diverse set of PHAs.

10. Residents of converted properties should have the same rights regarding placement on HCV waiting lists as public and assisted housing residents.

11. PHAs should have the flexibility to utilize HCVs as replacement units for demolished or disposed-of public housing units.

12. A comprehensive public housing preservation policy must include other tools and approaches in addition to conversion to ensure the preservation of public housing properties that elect not to participate in or are not suitable candidates for a conversion initiative.