

The Future of Public Housing

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I'm pleased to be here today to talk with you about the future of public housing. I speak from the perspective of a taxpayer who wants to help low-income families, albeit a taxpayer who has spent the last 40 years studying the performance of low-income housing programs.

I'll talk about some public housing reform proposals that require no additional federal funds. They are proposals to better use the funds and assets currently available to public housing authorities. The proposals *would* require congressional action to change the restrictions on housing authorities.

The goals of the reforms are to

- Provide current public housing tenants with more choice concerning their housing
- Provide better housing to tenants who remain in public housing
- Promote economic integration in public housing projects

The reforms would significantly improve on the HOPE VI approach to dealing with the worst public housing projects, greatly expand on the vouchering-out provisions of the 1998 Housing Act, and benefit many current public housing tenants.

The proposals are based heavily on evidence on program performance, most importantly but not exclusively, evidence on differences between public housing and housing vouchers in the total cost of providing equally good housing. This evidence indicates that public housing is much more expensive.

I hasten to add that the usual comparison between the average voucher subsidy and HUD's per-unit operating and modernization subsidy is not a valid comparison of the cost-effectiveness of public housing and housing vouchers. HUD's operating and modernization subsidy substantially understates the true subsidy in providing assistance in public housing projects because it ignores the opportunity cost of the public housing land and structure that are used to serve public housing tenants and the substantial local property tax abatements received by public housing projects. With Congressional

approval, public housing units could be rented to the families willing to pay the most for them or they could be sold to the highest bidder. These things could be done without reducing the number of families receiving housing assistance if and when current public housing tenants are served with housing vouchers. The simple cost comparison also ignores differences in the desirability of the housing occupied by public housing tenants and housing voucher recipients. The careful studies of this matter account for these considerations.

The evidence on the excessive cost of public housing implies that it would be possible to serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without spending more money by shifting resources from public housing to tenant-based housing vouchers. This evidence also implies that it would be possible to make current public housing tenants better off by shifting resources in this way. My proposals focus on doing that.

Shifting resources from public housing to housing vouchers has another major advantage. It allows each recipient to occupy a dwelling unit with a combination of location, size, amenities, and condition preferred to their current public housing unit, while still insuring that recipients live in housing meeting minimum housing standards.

In my view, a politically feasible reform requires a transition that benefits many current recipients and hurts few of them. My reforms are intended to achieve this outcome.

It's important to realize that the poor performance of the public housing program relative to the housing voucher program is not due to differences in administrative competence. Both are administered by the same local public housing authorities. At HUD, the Assistant Secretary for Public and Indian Housing oversees both programs. The difference in performance is due to fundamental differences in the design of the programs. The voucher program relies heavily on the incentives of recipients to get the best housing possible for the money spent on it. In contrast, the public housing program does not provide its decision makers with much incentive for efficient production and indeed has many restrictions that hinder it.

Currently, HUD provides public housing authorities with about \$7 billion each year in operating and modernization subsidies for their public housing projects. My proposal would not change the amount of federal money available to any housing authority, but it *would* alter greatly the restrictions on the use of this money and increase the total revenue of housing authorities.

It gives each housing authority the same amount of federal money as it would have gotten with a continuation of the old system so that no authority would be able to object to the proposal on the grounds that it would have less to spend on its clients.

With one exception, the proposal requires every public housing authority to offer each current tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. With one caveat, this insures that no public housing tenant is harmed by the reforms.

To insure that housing authorities can pay for these vouchers with the money available, payment standards should be set to use the housing authority's entire federal subsidy in the highly unlikely event that all public housing tenants accepted the vouchers. These payment standards would almost always differ from regular Section 8 Housing Choice Voucher payment standards. My calculations indicate that they would be only 4 percent less on average across the country, though the difference could be much larger for some public housing authorities.

The proposal would not require housing authorities to sell their projects beyond what is required under the regulations implementing the relevant provisions of the 1998 Housing Act. However, it would *allow* them to sell any of their projects to the highest bidder. This would provide additional revenue to improve their remaining projects or provide vouchers to additional households.

Many housing authorities would surely choose to sell their worst projects. With uniform vouchers offered to families living in all of a housing authority's projects, it's reasonable to expect that the vouchers will be accepted by a higher fraction of tenants in the worst projects. These are the projects that would be the most expensive to renovate up to a specified quality level. They are the types of projects that have been demolished under the HOPE VI program and that Congress intended to voucher out under the 1998 Housing Act.

When a project is sold, the remaining tenants in that project would be offered the choice between vacant units in other public housing projects or a housing voucher, as is current practice under HOPE VI.

By selling the public housing projects on which they would have spent the most money and providing their occupants with vouchers that have the same cost as the authority's average net expenditure on public housing units, the public housing authority would free up money to better maintain its remaining units.

When public housing units are vacated by families that accept vouchers, the housing authority would offer the next family on the waiting list the option of occupying the unit or a portable housing voucher.

If the family takes the voucher, the housing authority would be allowed to charge whatever rent the market will bear for the vacant unit. This would provide additional revenue to housing authorities without additional government subsidies. It would also promote economic integration in public housing.

Each year some former public housing tenants that had used the proposed vouchers to leave their public housing units would give up these vouchers for a variety of reasons. The money saved from their departure should be used to offer similar vouchers to other families eligible for housing assistance. The recycling of voucher funds would insure that the tax money spent on public housing will continue to support at least the same number of families.

The preceding proposals would benefit many current public housing tenants without greater cost to taxpayers. The public housing tenants who accept vouchers would obviously be better off because they could have stayed in their current units on the old terms. They would move to housing meeting HUD's housing standards that better suits their preferences. Tenants that remain in public housing would benefit from greater maintenance of their units.

The only public housing tenants who would be hurt by the proposal are tenants who want to remain in the projects that housing authorities decide to sell. Since it's impossible to justify renovating structures that reach a certain level of obsolescence and dilapidation, the initial opposition of a small minority of public housing tenants should

not be allowed to prevent benefits to the majority. To the best of my knowledge, HOPE VI redevelopment doesn't require the unanimous consent of the occupants of a project.

To summarize my proposals, each housing authority would receive the same amount each year from the federal government as under the current system, and each would have the same assets, namely, the structures and land on which they are located. However, these assets would be better used, and the proposal would provide housing authorities with more money to better serve assisted families who remain in public housing. The additional money would come from selling some of their projects or charging market rents for the units vacated by current public housing tenants or both. The proposal would greatly facilitate the sale of projects that are not worth renovating. The requirement that these projects must be sold to the highest bidder insures that the land and structures would be put to their highest valued use and maximizes the money available to help low-income families with their housing. The traditional public housing program would wither, but public housing authorities would do a much better job in helping low-income families with their housing without any additional federal subsidy.

Given the difficulty of predicting the consequences of such far-reaching changes, it would be desirable to start with a controlled experiment involving innovative public housing authorities willing to implement these proposals for a randomly selected subset of their public housing projects. This experiment would produce evidence on the effects of the proposals, and it would provide useful information for modifying them to avoid unforeseen negative consequences and to achieve better outcomes. The housing authorities that volunteer would receive additional administrative funds to compensate for the extra workload associated with this radical transformation of public housing, and HUD's Office of PD&R would receive funding for the research component of the demonstration so that we learn from the experiences of these pioneering housing authorities.

I should mention that at this conference the San Diego Housing Commission has received a NAHRO award of excellence for adopting reforms similar to what I have just proposed.

I appreciate this opportunity to share my ideas on public housing reform with you, and I welcome your thoughts about these proposals during or after this session. You can

find more details on the evidence on program performance and the proposals themselves at <http://www.virginia.edu/economics/papers/olsen/FINAL%20OLSENPaper.pdf> .