With some innovative changes, public housing is making a comeback.

The Fall and Rise of Public Housing

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If new spending is a reasonable measure of the country’s priorities, then few areas of domestic national policy have experienced as dramatic a decline in favor over the past 25 years as low-income housing. That is especially true of programs administered by the Department of Housing and Urban Development, which underwent profound change between the time Jimmy Carter entered the White House in 1977 and when Bill Clinton left in 2001.

While not every important policy trend can be reduced to numbers, the numbers are a very big part of the low-income housing story — in terms of needs, available supply, who is helped, and federal commitment. Assessing how well housing assistance competes for funds relative to other areas of domestic policy activity is complicated by the fact that increasingly higher budget commitments are needed just to hold constant the number of families receiving housing assistance. That is because, each year, a rising number of long-term subsidy contracts come due and need to be renewed or extended. Thus, in housing’s case at least, rising budgets do not always reflect greater levels of program activity.

Ironically, housing’s long-term fall from grace has set the stage for a remarkable comeback by the one low-income housing program that most fiscal conservatives love to hate: public housing. What is more, the comeback is being led by what, historically, has been branded one of the most dysfunctional public housing authorities in the country: the Chicago Housing Authority.

Housing by the Numbers

In less than a generation, subsidized housing’s share of new federal spending commitments declined by 80 percent, from about five percent of total federal budget authority in 1976 to just one percent in 2000. Housing has even lost ground within the welfare portion of the budget; over the same period, housing assistance’s share of all budget authority targeted to the poor fell from more than 36 percent to less than seven percent.

Because sustained budget cuts have real consequences, the assisted housing rolls have fallen sharply since the 1970s. From 1978 to 1984, the number of additional subsidized households grew by an average of 230,000 per year, while from 1985 to 1995 the average annual growth was 126,000 households. From 1996 to 1998, Congress stopped funding any new incremental assistance, resulting in the addition of virtually no new households. Although modest appropriations have resumed, fewer than 35,000 new households receive assistance each year.

Housing needs: Were housing’s lower profile to be matched by an equally sharp decline in needs, spending for housing assistance would be a non-issue. But I believe it is clear that that is not the case. Over the past 20 years or so, the number of American families with critical housing needs — those who spend more than half of their income for housing or live in substandard housing — has almost doubled, from around 7.2 million to 13.7 million according to HUD. Both absolutely and relatively, a larger share of the nation’s families has a crit-
ical housing problem today than 20 years ago — about 14 percent compared to nine percent.

Besides sheer numbers, there are two major changes in the profile of housing needs that significantly affect budget and policy: the growth and persistence of homelessness in America, and the steady rise in the burden of severe housing costs up the income ladder and into the suburbs.

**Homelessness** With respect to the former, Urban Institute researchers estimate that more than two million adults and children — equaling nearly one percent of the U.S. population — are likely to be homeless at least once during a year. That likelihood grows to more than six percent for people living in poverty. On average, more than half of the homeless population consists of families with children (40 percent) or lone minors (14 percent).

From no expenditures for emergency shelter and other homeless assistance in the 1970s, HUD now spends more than $1 billion each year to support shelter and housing-related assistance for the homeless. That represents almost five percent of HUD's FY 2002 housing assistance budget.

**Middle-class needs** HUD and Congress have yet to identify the sharply rising cost of housing for moderate-income working families as a problem requiring discrete federal action. But it is fast becoming an explosive political problem and calls into question some of the fundamentals of national housing policy. That is because, for most of the last 20 years, federal housing policy has implicitly or explicitly linked the housing problems of American families to issues of poverty and welfare dependency. While the poor have by far the highest incidence of housing needs, an exclusive focus on very-low-income families fails to appreciate the full extent of the country's affordable housing problems. Indeed, in 1999 almost four million working families with moderate incomes had critical housing needs, and the vast majority of them spent more than 50 percent of their income to obtain good quality housing.

The cost of decent housing relative to income continues to rise. According to the National Low Income Housing Coalition (NLIHC), the so-called housing wage is more than double the minimum wage in 1,237 local jurisdictions, and more than three times the minimum wage in 210 jurisdictions. The "national median housing wage" is what a household would have to earn to pay the HUD Fair Market Rent on a two-bedroom apartment using no more than 30 percent of its income. In 2000, that figure was $13.87 an hour, compared to the federal minimum wage of $5.15 per hour.

As the housing wage increases, working families with critical housing needs are no longer concentrated among urban renters. While 43 percent of them (1.6 million) reside in the central cities, a nearly equal number (1.5 million) live in the suburbs, and just about half (1.8 million) own their own homes.
Housing’s Fall from Grace

With the need for low-income housing climbing, how can we explain the decline in public housing’s political support? Two possible answers are a declining preference among voters for big social programs (especially low-income housing) and a widespread perception that the federal government has been a poor steward of the taxpayer’s housing dollar.

Contract with America  The possible role of ideology in housing’s fall from grace is suggested by the timing of the recent funding freeze — immediately following the 1994 midterm election and the rise of Newt Gingrich’s “Contract with America.” Those events coincided with a whopping rescission of previously approved but unspent appropriations for social programs.

Two things stand out about the 1995 rescission. First, according to the Center for Budget and Policy Priorities, two-thirds of the recaptured funds were taken from programs that serve the poor, “although such programs accounted for only 12 percent of federal non-entitlement funding.” Second, of the roughly $17 billion government-wide that was recaptured, more than $7 billion — 43 percent — came from HUD.

Poor steward  That the decline of low-income housing might also be related to the perception of federal ineptitude is suggested by HUD’s long-standing position on the General Accounting Office’s “high-risk” list and by frequent “headline” scandals. The historical causes of HUD’s problem have included inadequate oversight, poor program design, and outright fraud and corruption. A lethal combination of those factors contributed to the “Section 235” scandals in the late 1960s and early 1970s, in which tens of thousands of poor families were misled into buying overpriced houses with faulty plumbing, leaky basements and roofs, cracked ceilings, inadequate insulation, and bad heating units.

There also have been significant problems with the portable rental assistance “Section 8” program. Section 8, which produced more than 1.5 million low-income rental units between 1974 and 1989, offered large upfront subsidies (in the forms of small cash requirements, mortgages with below-market interest rates, big tax shelters, and income from construction, management fees, operating profits, and cash distributions) that rewarded private developers for building low-income housing. But the program did little “to ensure quality management and long-term ownership,” according to the GAO.

Add to those problems the periodic ethical lapses at the highest levels of HUD — including the criminal indictment during the Reagan administration of a sitting HUD secretary who reportedly was so bored that he spent some afternoons watching soap operas — and it is not hard to understand the public’s loss of confidence in both housing policymakers and their programs.

Voucherization  Once the sole province of rock-hard conservatives who were convinced that production programs served (primarily Democratic) developers more than the poor, housing vouchers are now embraced by liberals who value consumer choice. As portable rental assistance, vouchers have the potential to increase low-income families’ access to job-rich communities and neighborhoods with better schools.

Historical spending patterns reflect the triumph of vouchers and the transition of federal housing assistance to a mix of supply- and demand-side subsidies. Between 1976 and 1999, the overall share of low-income housing assistance in the form of tenant-based rental assistance more than doubled, from about 16 percent of assisted households to more than 37 percent. The shift in priorities is even more apparent in year-to-year comparisons. Between 1979 and 1980, for example, 29 percent of the more than 268,000 gross additions to the subsidized housing inventory were housing vouchers. Between 1997 and 1998, 100 percent of the 107,000 subsidized units added to the rolls came from vouchers.

In general, research suggests that liberals should be reasonably pleased with how HUD’s portable rental assistance programs are doing. Urban Institute researchers Margery Austin Turner, Susan Popkin, and Mary Cunningham wrote in their recent report “Section 8 Mobility & Neighborhood Health”:

The vast majority of families and individuals who receive certificates or vouchers are successful in finding a house or apartment that qualifies for assistance. Minority households, families with children, elderly people, and the disabled all appear to be successful in taking advantage of Section 8 assistance to obtain decent and affordable housing on the private market.

[Moreover], recipients live in better-quality housing and pay more affordable rent burdens than similar, unassisted households. [Furthermore], tenant-based assistance recipients are far less likely than public housing residents to be concentrated in high-poverty neighborhoods.

Taking those changes into account, today about 4.2 million lower-income households receive housing assistance through programs administered by HUD. About a third of assisted households receive Section 8 vouchers; the other two-thirds live in project-based subsidized housing that is either owned and operated by a public agency or privately owned but kept affordable by a long-term subsidy contract with HUD. The national inventory of 1.25 million public housing units accounts for 40 percent of all project-based “hard” units and 27 percent of all HUD-assisted housing, while the remainder is privately owned.

Contract renewals  The cumulative result of those transitions is that low-income housing policy has undergone a stunning budget-induced transformation, virtually eliminating all new HUD-assisted production and reducing funding for new vouchers to a bare minimum. While almost all of HUD’s new spending in 1976 was devoted to increasing the stock of assisted housing through construction, rehabilitation, and rental assistance, today HUD’s spending is mostly for maintaining or improving the existing stock and renewing subsidy contracts.

The short- to intermediate-term implications of such back-to-basics housing policy are breathtaking. Consider, for example, the matter of contract renewals. Because developers required long-term commitments to back the private mortgages they needed to finance their projects, HUD sub-
High-performance PHAs have evolved into sophisticated housing development and management agencies with access to a variety of financing tools.

nearly $15 billion, almost two-thirds of HUD’s entire housing assistance budget.

And the budget squeeze will intensify in the coming years as successive waves of expiring contracts come up for renewal. Between 1999 and 2004, two-thirds of all Section 8 contracts will expire — totaling almost 14,000 properties containing a million subsidized housing units, according to HUD. An inevitable by-product of such high renewal rates is that not all project owners will want to keep their properties in the low-income inventory, preferring to forgo further subsidies and instead compete for market-rate tenants.

**Shrinking inventory** According to HUD, each month more than 1,000 project-based units opt out of the Section 8 program. In 1998 alone, more than 17,000 subsidized units in over 300 properties left the project-based inventory. That was more than three times the total from the year before. Since October 1996, 30,000 subsidized units in over 500 project-based properties have left the program.

Another reason the HUD-subsidized inventory of low-income housing has fallen by almost 10 percent in the last five years or so is a bipartisan policy of demolition. Up to 100,000 of the most obsolete and deteriorated units are being torn down as part of a comprehensive public housing transformation initiative. The policy is premised on the widely held belief that, in the words of HUD, “most large, highly concentrated public housing developments have failed to provide healthy environments for our poorest and most disadvantaged citizens.” By the end of the demolition campaign, the public housing inventory will be smaller than it was at its peak, but in much better condition and under much-improved asset management practices.

Unlike in public housing where the worst units are being culled, the significant decline in privately owned assisted housing is among the highest quality stock. That is because the most desirable privately owned assisted units are in attractive neighborhoods in hot real estate markets, where owners can command high rents in the private market.

To put that loss in perspective, consider production levels during housing’s heyday. Between fiscal years 1976 and 1980, the nation’s supply of low-income units with rent restrictions running 20 years or more increased by more than 18 percent (390,000 units). Just between 1995 and 1999, however, the inventory declined 15 percent (almost 500,000 units), leaving the HUD-assisted housing inventory about the same as it was in 1982. Although a significant portion of the loss has been made up by the addition of more than 300,000 affordable rental units through the federal Low Income Housing tax credit (LIHTC), those units are less deeply subsidized than what they effectively replaced. The net effect of trading LIHTC units for Section 8 and public housing units is to reduce housing opportunities for the poorest of the poor.

**PUBLIC HOUSING IN PERSPECTIVE**

Surprisingly, it is within the public housing program that the most potentially significant changes are taking place — changes that are increasing the importance of public housing. After years of experience with newer housing programs that were enacted on the simple fact that they were not “project” public housing, there has been a renewed appreciation for public housing and an accelerated pace of reform on the part of Congress and the administration. The rekindled interest is due less to the lackluster performance of successor programs than it is to an understanding of the importance of public housing as a permanent low-rent housing resource. Because it is the ultimate social safety net for so many families who cannot find decent shelter in the private market, public housing is too important to neglect and too critical to cities and towns across the country to be abandoned.

The recognition of its essentiality has unleashed an unprecedented surge of energy, creativity, and entrepreneurial spirit within the public housing arena during the past decade. In addition, the 1990s saw a series of fundamental changes in law and policy, including the creation of the HOPE VI program, the introduction of mixed-income and mixed-financing opportunities, and the enactment of the Quality Housing and Work Responsibility Act (QHWRA) of 1998. Furthermore, high-performing large- and medium-sized public housing authorities have evolved into sophisticated housing development and management agencies with diverse responsibilities and access to a variety of public and private
financing tools. Today, public housing is more innovative and dynamic than at any other time in the history of the program. Today, public housing accounts for about four percent of all rental housing in the nation and nearly half (46.4 percent) of all units that rent for $250 a month or less. Notwithstanding the ongoing demolition campaign to remove the most severely distressed stock, public housing’s value as an essential housing resource is likely to continue long into the future. That is because rents in the conventional market are rising faster than inflation, and pressures for above-average rent increases at the bottom end of the rental market are eroding the supply of rental units that are affordable without government subsidies.

**HOPE VI** Although growing problems with livability and maintenance in public housing convinced Congress in the 1970s to stop building new high-rises for families with children, funding continued into the early 1980s for towers for the elderly and lower-rise developments for families, albeit at very modest levels. Today, the nation’s 13,000+ public housing developments are located in all 50 states — in big cities, small towns, and rural areas — and are owned and operated by more than 3,000 local public housing authorities (PHAs). Despite the virtual cessation of new production, Congress and successive administrations have maintained their commitment to public housing by continually funding the 25-year-old modernization program and by creating the HOPE VI program.

HOPE VI began in 1993 in response to a finding by the National Commission on Severely Distressed Public Housing that 86,000 public housing units were “severely distressed because of their physical deterioration and uninhabitable living conditions, increasing levels of poverty, inadequate and fragmented services reaching only a portion of the residents, institutional abandonment, and location in neighborhoods often as blighted as the sites themselves.”

The program initially was created to help revitalize severely distressed or obsolete public housing developments in the 40 largest cities or in other cities with troubled PHAs. Subsequently expanded to other housing authorities with severely distressed projects, HOPE VI’s comprehensive approach to community revitalization has successfully replaced dilapidated ed buildings with appropriately designed housing that attracts a range of family income levels for rental or home ownership.

Eligible HOPE VI activities include capital costs of major reconstruction, rehabilitation, and other physical improvements; provision of replacement housing; and implementation of community and supportive services. HOPE VI funds have driven much of the demolition and replacement activities occurring in PHAs across the nation today, thus becoming HUD’s most important de facto production program.

**Mixed financing** An innovation of HOPE VI is the creation of a mixed finance system, the goal of which, according to HUD, is to “maximize the leveraging of other funds, both public and private, into the public housing development process to create mixed-income opportunities.” From its inception, Congress has appropriated over $5 billion to fund the HOPE VI program, with annual funding averaging about $550 million a year. The appropriations are above and beyond appropriations to the public housing capital fund that are used to modernize the inventory of aging developments.

The positive experiences gained from HOPE VI — and its principles of mixed finance and mixed income housing — were extended to the broader public housing development program in May 1996. The resulting mixed-finance developments may consist completely of public housing units or may blend both public and non-public units as long as federal requirements for the public housing units are met.

**Most households live in public housing for less than 10 years, and 40 percent remain there for three years or less. Almost a third of residents are elderly.**

**Who lives in public housing?** It has been said that public housing is unpopular with everybody except those who live in it and those who are waiting to get in. Nationwide, the average wait for public housing is around 11 months. That is down two months in the last 10 years, but in many big cities the wait for public housing is much longer. A recent HUD examination of the waiting lists of 40 large PHAs found several that had been closed because of overwhelming size. Those that remained open contained almost one million families and grew between 10 percent and 25 percent in just one year, 1998 to 1999. In the same period, a family’s average time on a waiting list with the largest PHAs increased by 50 percent, from 22 months to 33 months.

Because of public housing’s crucial role in sheltering a sizable share of the poor (especially single-parent minority poor), its popular image is overwhelmingly negative. Contrary to the common perception, however, the majority of public housing residents are not welfare-dependent single women with children. Almost a third (32 percent) are elderly, and another 16 percent are seniors or young and middle-aged people with some sort of disability. Although a majority of the non-elderly is comprised of households headed by a single parent, 43 percent of all public housing families with children indicate that wages are their primary source of income.

Nor are most public housing residents “lifers.” In reality, most households live in public housing for less than 10 years.
and 40 percent remain there three years or less. Those who stay longer include a disproportionately large number of low-income elderly and disabled persons who often have no other source of housing.

OTHER RECENT REFORMS
Despite their diversity, the families and individuals who live in public housing are generally very poor and have grown poorer over time. Because of changes in both the demographics of cities and the admissions policies of public housing (applicable income limits and minimum/maximum rents), tenants’ incomes have fallen significantly in real terms for at least the last 30 years. Between 1950 and 1999, the median income of public housing tenants fell from 64 percent to 22 percent of the national median, to just $7,631, according to HUD.

QHWRA During the past decade, PHAs “have gained much greater discretion over many aspects of the public housing program, including tenant selection, the use of income incentives, and rent setting,” according to researchers Deborah J. Devine, Lester Rubin, and Robert W. Gray. The seeds of that change were sown in the 1990s by revamped laws, culminating in the Quality Housing and Work Responsibility Act (QHWRA) of 1998.

The realization that too many public housing developments had become isolated islands of the poorest of the poor made income targeting a major element of the act. One intention is to reduce the concentration of poverty by enabling PHAs to serve a wider range of income groups. According to the National Academy of Public Administration, “Prior to QHWRA, 75 percent to 85 percent (depending on project age) of all households admitted to public housing were required to have incomes below 50 percent of the median area income. Under the act, public housing programs are to have not less than 40 percent of new families with incomes under 30 percent of the area median income.” Other admissions may have incomes as high as 80 percent of median household income. Because public housing rents continue to be tied to income, a not-inconsequential byproduct of the new admissions policy is a potentially enlarged rental income stream.

The QHWRA also contains several provisions to help families living in public housing make a successful transition from welfare to work. The provisions include:

Earned income disregard, which prohibits a public housing family’s rent from being increased for one year and limits rent increases for a second year when a family member who was unemployed or on welfare gets a job.

Local-option rent reforms, which allow PHAs to adopt other rent incentives — such as ceiling rents and income disregards — to reward residents who increase their incomes and so that families do not pay more than the market rate for their public housing unit.

Reinforcements of welfare reform work incentives, which provide that a family’s rent will not be decreased when its income goes down because of welfare agency sanctions.

Supportive services, which require efforts to establish cooperative agreements between PHAs and local welfare agencies to target supportive services.

The act does not just make it possible for PHAs to improve their asset management practices; it requires them to do so. Under the QHWRA’s mandatory receivership provision, HUD is obligated to seek a receiver within two years for troubled PHAs that do not improve enough to escape their troubled status. Another provision, mandatory conversion, requires PHAs to tear down the most unlivable, expensive projects and provide tenant-based vouchers instead. Under the QHWRA, the physical condition of housing is now a performance indicator in HUD’s annual PHA assessment process.

MTW The “Moving to Work” (MTW) program is a demonstration program authorized in 1996 in which selected public and Indian housing authorities are designing and testing new ways to promote self-sufficiency among assisted families, achieve program efficiencies, reduce costs, and increase housing choice among low-income households. Instead of appropriating additional funds, Congress gave participating PHAs the flexibility they need to achieve innovations by exempting them from much of the requirements of the Housing Act of 1937 and associated HUD regulations, to the extent delineated in an MTW agreement between HUD and each PHA.

Using a variety of MTW tools and approaches, several housing authorities are experimenting with a wide range of innovative programs. In High Point, N.C., one authority is trying a number of approaches to enhance families’ successful transition from welfare to work. In Minneapolis, an authority is testing strategies to use Section 8 vouchers for home ownership.

CHA Arguably the most ambitious and potentially path-breaking MTW agreement is between HUD and the Chicago Housing Authority (CHA). The CHA is using a full arsenal of tools to leverage HUD capital funds in the private capital market to modernize, reconfigure, and transform its entire public housing inventory over a 10-year period. Among other elements, the CHA’s transformation plan includes:

- A $1.6 billion capital program that would produce approximately 25,000 new or rehabilitated housing units.

- The demolition of nearly 17,000 units (mostly family high-rises).

- The privatization of a significant segment of its activities (including the transfer of all property management functions to professional property management organizations).

- A system of “service connectors” to assist residents in accessing necessary community services and becoming self-sufficient.

- Substantial reductions in overhead expenses sufficient to provide at least $300 per unit each month (agency-side) in non-utility funds for property operating budgets.
The CHA agreement’s centerpiece is a 10-year HUD capital funding commitment that has enabled it to leverage $300 million from Wall Street investors. Over the 25-year period. Appropriations exceeded $1 billion in a single year for the first time in FY 1983, and from that point to the present, appropriations averaged around $2.4 billion a year. Annual funding levels were even higher during the 1990s, when they averaged nearly $2.8 billion a year (from 1990 to 2001).

In nominal terms, funding for public housing modernization has increased with each successive presidential administration. Because the modernization program was still in its formative years during the Carter administration, funding averaged just $61 million a year. During Reagan’s two terms, in spite of his administration’s lack of enthusiasm for public housing, modernization funding grew significantly, with annual funding averaging more than $1.5 billion a year during the 1980s. Despite the fact that George Bush’s HUD secretary, Jack Kemp, placed a greater emphasis on privatizing public housing than on redeveloping the aging stock, average modernization funding levels during the Bush administration were 73 percent higher than they were during the Reagan years, averaging $2.6 billion a year. Appropriations continued to climb — although at the much more leisurely pace of seven percent — during the eight years of the Clinton presidency, with funding averaging more than $2.8 billion a year.

While presidential leadership is always helpful, rarely has the cause of modernization become central to a presidential veto threat or the centerpiece of a major domestic policy initiative. In fact, the historical record shows quite the opposite. What should provide the capital markets an extra measure of comfort is that Congress, not the president, both drives the modernization engine and ensures that it will not stall. In 15 of the last 16 years, Congress has appropriated more funds for public housing modernization than the president requested. From FY 1987 to FY 2002, total appropriations for public housing modernization exceeded the sum of presidential requests by more than $4 billion (14 percent). Year-to-year, the differences in congressional appropriations are much smaller than the differences in presidential budget proposals — a fact that adds an important measure of stability to the modernization effort.

CONCLUSION
In fits and starts over the past 25 years, national housing policy has been moving from a centralized, command-and-control system of deeply subsidized production to a more decentralized system of housing assistance intended to increase consumer choice, remove the remaining vestiges of racial and other forms of discrimination, use federal subsidies to leverage market capital, and create more mixed-income developments. Income mixing has become an important element of the new housing policy, and not just to achieve social ends. Attracting unsubsidized households to government-assisted housing increases the possibility of private financing and requires developers to secure more attractive and accessible sites to remain competitive, build more “curb appeal” into their projects, and provide excellent management in order to minimize turnover and maximize revenues.

After years of experience with newer housing programs that were successfully enacted on the simple fact that they were not traditional public housing, there has been a renewed appreciation for public housing and an accelerated pace of reform on the part of Congress and the presidency. The rekindled interest is due less to the lackluster performance of successor programs than it is to a renewed appreciation of public housing’s importance as a permanent low-rent housing resource.

In short, because it is the ultimate social safety net for so many families who cannot find decent shelter in the private market, public housing has become too important to neglect and too critical to cities and towns across the country to be abandoned. As one reflects on the last 25 years of national low-income housing policy, a renewed recognition of public housing’s essentiality, and its embrace by Wall Street, is the great paradox.