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Report to Secretary, Department of Housing and Urban Development; by Henry Eschwege, Director, Community and Economic Development Div.

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Authority: Housing and Community Development Act of 1974 (P.L. 93-383). United States Housing Act of 1937 (42 U.S.C. 1401).

Under the Department of Housing and Urban Development's (HUD's) section 8 program, low-income families pay 15% to 25% of their incomes for rent, and HUD subsidizes the difference between the family's contribution and the rent charged by the landlord. HUD's efforts to avoid, through its section 8 housing assistance program, undue concentrations of lower-income persons were reviewed. Key HUD housing and community development personnel are not sure whether deconcentration is a prime objective of the section 8 program, and HUD has provided little formal direction in defining deconcentration or in establishing procedures to achieve it. The extent of deconcentration achieved through the section 8 program is not readily determinable because HUD has not developed the criteria needed to measure this factor. In order to minimize the deconcentration of lower income persons through the section 8 program, the Secretary of HUD should: clearly define the deconcentration objective and its relationship to the section 8 program; issue guidelines to assist field offices in achieving the stated objective; and develop a system for measuring the results of deconcentration efforts, including appropriate measurement criteria, goals, and data-collection mechanisms. (RRS)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20543

8064

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-171630

OCTOBER 20, 1978

The Honorable
The Secretary of Housing
and Urban Development

Dear Mrs. Harris:

We have reviewed the efforts of the Department of Housing and Urban Development (HUD) to avoid, through its section 8 housing assistance program, undue concentrations of lower income persons.

The results of our review are contained in the enclosures to this letter. To summarize, we found that

- key HUD housing and community development personnel are not sure whether deconcentration is a prime objective of the section 8 program,
- HUD has provided little formal direction in defining deconcentration or in establishing procedures to achieve it, and
- the extent of deconcentration achieved through the section 8 program is not readily determinable because HUD has not developed the criteria needed to measure this factor.

We believe that the section 8 housing program authorized under title II of the Housing and Community Development Act of 1974--the principal Federal program for housing lower income persons today--has not been sufficiently meshed with the legislative objective, contained in title I of the legislation, of deconcentrating lower income persons. HUD needs to develop an implementation plan for deconcentration and to establish criteria for evaluating the success of the section 8 program in achieving deconcentration. Otherwise, the success of the program in avoiding the concentration of lower income families--a problem which has plagued earlier federally subsidized housing programs--will remain in question. Also, steps should be taken now, before substantial numbers of units are occupied.

CED-78-181
(38211)

We recognize that deconcentration is not the only objective of the section 8 program and cannot be fully achieved because of factors relating to the program's operation and the participants' attitudes. However, in order to maximize the deconcentration of lower income persons through the section 8 program, we recommend that you

- clearly define the deconcentration objective and its relationship to the section 8 program,
- issue guidelines to assist field offices in achieving the stated objective,
- develop a system for measuring the results of deconcentration efforts, which includes appropriate measurement criteria, goals, and data collection mechanisms.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the (1) House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and (2) House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this letter are being sent to the above committees, the Senate Committee on Banking, Housing, and Urban Affairs, and the House Committee on Banking, Finance, and Urban Affairs. We are also sending copies to your Assistant Secretaries for Housing-Federal Housing Commissioner, Community Planning and Development, and Fair Housing and Equal Opportunity and to your Inspector General.

Sincerely yours,



Henry Eschwege
Director

Enclosures - 2

DECONCENTRATION OF
LOWER INCOME PERSONS THROUGH
SECTION 8 HOUSING ASSISTANCE PROGRAM

BACKGROUND

The Housing and Community Development (HCD) Act of 1974 (Public Law 93-383, Aug. 22, 1974) is omnibus legislation, which considerably altered Federal involvement in a wide range of housing and community development activities. Title I of the act consolidated several categorical loan and grant programs for community development into a new single program of community development block grants. Title II of the act amended various assisted housing programs and added, under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1401), a new lower income housing program to provide rental assistance to families with incomes too low to obtain decent housing in the private market.

Under the section 8 program, the assisted family pays 15 to 25 percent of its income for rent, with the Department of Housing and Urban Development (HUD) subsidizing the difference between the family's contribution and the rent charged by the landlord. The rents generally must be no higher than fair market rents (FMRs) established by HUD for each housing market area in the country. The section 8 program makes use of existing housing, substantially rehabilitated units, and newly constructed units. Program eligibility depends on family size and income, compared with the median income in the community. The program is administered at the local level by public housing agencies (PHAs), or HUD may contract directly with owners.

Through fiscal year 1978, HUD was authorized to make payments totaling \$3.5 billion annually for about 1.23 million section 8 units--about 440,000 newly constructed, 104,000 substantially rehabilitated, and 685,000 existing housing units. Over the length of leases, which sometimes can extend up to 40 years, future costs could amount to about \$81 billion.

One objective of the HCD Act of 1974 is to reduce concentrations of lower income housing and promote greater freedom of choice in housing location for lower income persons. Section 101 of title I of the act provides for

* * * the reduction of the isolation of income groups within communities and geographical areas and the promotion of an increase in the diversity

and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income * * *."

This objective was established because, as the Congress also stated in section 101, a prime cause of America's urban problems is the concentration of lower income persons in central cities.

One of the purposes of the HCD Act of 1974 is to foster coordinated and mutually supportive housing and community development activities. The vital link between title I (community development) and title II (assisted housing) is the housing assistance plan (HAP). HAPs must be submitted by all communities applying for block grants. In these HAPs, communities must survey the condition of their housing, assess the housing assistance needs of lower income persons, establish realistic goals for the number of dwelling units or persons to be assisted, and indicate the general locations of proposed housing for lower income persons. According to section 104 of the HCD Act of 1974, a primary consideration in selecting general locations for proposed housing is:

"* * * promoting greater choice of housing opportunities and avoiding undue concentrations of assisted persons in areas containing a high proportion of low-income persons * * *."

As the primary Federal program for housing lower income persons, the section 8 program should be the major vehicle for dispersing these persons outside areas containing significant concentrations of lower income residents. Besides the spatial deconcentration objective set out in section 101, the HCD Act of 1974 also established "promoting economically mixed housing" as an objective of the section 8 program. The Senate Committee on Banking, Housing, and Urban Affairs, in its February 27, 1974, report on the HCD Act of 1974, stated that:

"Experience has demonstrated that a cross-section of occupancy is an essential ingredient in creating economically viable housing as well as a healthy social environment."

Accordingly, while the act allows up to 100 percent of the units in a building to be involved in section 8 assistance, in certain circumstances preference may be given to applications for assistance involving not more than 20 percent of the units in a project. The act also requires that at least 30 percent of the families assisted by the program be very-low-income persons--those with incomes less than 50 percent of median income in the area.

An acknowledged failure of past Federal housing programs has been the tendency to concentrate lower income people in housing projects which, in time, became run down, overcrowded, and crime-ridden. The Pruitt-Igoe housing project in St. Louis is an often cited example of this failure. Constructed in 1955-56, in the core of a slum area, this 2,870-unit project was largely vacant and vandalized by the end of 1972. It was later completely demolished. Among the reasons cited for the failure of this project were the high concentration of low-income families and the prevalence of crime and vandalism.

In January 1973, HUD suspended a number of its assisted housing programs, pending a study of their feasibility. Most were subsequently terminated--partially because, HUD said, they led to a concentration of lower income families, who usually have many social problems and needs. HUD officials have cited features of the section 8 program which would help prevent such concentrations.

Our review was conducted at HUD's central office in Washington, D.C.; its Philadelphia, Pennsylvania, regional office; and its Pittsburgh, Pennsylvania, area office. We reviewed pertinent policies and procedures, examined records, and interviewed officials at the HUD offices, four PHAs, and five section 8 projects in western Pennsylvania. We also interviewed representatives of the housing industry in western Pennsylvania (i.e., realtors and construction contractors) who have participated in the section 8 program.

HUD HAS GIVEN LITTLE
EMPHASIS TO DECONCENTRATION

Although the deconcentration of lower income persons is an objective of the HCD Act of 1974, HUD has not adequately emphasized this concept in the section 8 program. As a result

- key HUD housing and community development personnel are not sure whether deconcentration is a prime objective of the section 8 program,
- HUD has provided little formal direction in defining deconcentration or in establishing procedures to achieve it, and
- the extent of deconcentration achieved through the section 8 program is not readily determinable because HUD has not developed the criteria needed to measure this factor.

Emphasis to be given
deconcentration not clear
to HUD personnel

HUD housing and community development personnel at its headquarters, Philadelphia regional, and Pittsburgh area offices are unsure of the relationship of deconcentration to the section 8 program.

Some HUD housing management officials at the regional and area offices said they were not certain that deconcentration is a primary objective of the section 8 program. Officials of HUD headquarters' Office of Assisted Housing Development and Office of General Counsel and the Fair Housing and Equal Opportunity Officer in the area office said the program's primary intent is to provide lower income persons with a freedom of choice of housing opportunities. The Chief of the Existing Housing Branch, Office of Assisted Housing Development, at HUD headquarters told us that concentrations of lower income persons are not prohibited in existing housing because freedom of choice is the key consideration in this segment of the section 8 program. Additionally, the Deputy Director of the Office of Assisted Housing Development at HUD headquarters told us that the location of newly constructed section 8 housing outside areas of low-income or minority concentration was never a major consideration in that part of the program.

These views were substantiated in HUD's latest (March 1978) report to the Congress on the status of the community development block grant program. The report pointed out that, although HUD officials are concerned that the locations of assisted units meet neighborhood and site standards, they do not consider deconcentration within geographic areas to be a high priority in the allocation of housing resources. Similarly, the report said that local officials do not consider deconcentration to be a strong factor in the HAP-proposed locations for assisted housing.

Other regional and area office management officials, including the Chief of the Economic and Market Analysis Section at the area office, told us that deconcentration is a primary objective of the section 8 program but the issue has not been emphasized by HUD, and even the meaning of the term "deconcentration" is not clear. Also, a representative from HUD headquarters' Office of Fair Housing and Equal Opportunity told us that the objective of spatial deconcentration of housing opportunities for persons of lower income makes it very clear that dispersion was meant to apply to HUD-subsidized housing programs. However, the same representative said that the section 8 program is not

operating to maximize this objective. Finally, the Chief of the New Construction Branch in HUD headquarters' Office of Assisted Housing Development pointed out that, while deconcentration is an important objective, the HCD Act of 1974 has other objectives, such as revitalizing deteriorating neighborhoods and conserving housing stock, which could be incompatible with deconcentration.

Little direction provided by
HUD on how to deconcentrate

HUD guidance to its field offices, PHAs, section 8 project managers, and local communities concerning deconcentration has been limited. HUD regulations do mention encouraging spatial deconcentration and promoting economically mixed housing. However, they do not adequately define such key components of deconcentration as (1) what comprises an undue concentration of assisted persons in a low-income area and (2) what economically mixed housing is. Further, HUD has not established procedures to assure the deconcentration objective is achieved.

HUD headquarters, Philadelphia regional, and Pittsburgh area office officials told us that very little formal guidance has been issued to promote deconcentration. Developers and program managers in western Pennsylvania also said they had not seen any formal guidance on or noted any emphasis given to deconcentration.

Spatial deconcentration

HUD has not adequately emphasized spatial deconcentration in the section 8 new construction and substantial rehabilitation programs' regulations. The agency's site and neighborhood standards, which are applicable to the section 8 new construction and substantial rehabilitation programs, do provide that sites "shall promote greater choice of housing opportunities and avoid undue concentrations of assisted persons in areas containing a high proportion of low-income persons."

However, the standards do not provide any definitions or quantitative measures as a basis for determining when these conditions exist. As a result, a HUD Pittsburgh area office official said, determining whether undue concentrations would occur is a judgment decision.

In addition, deconcentration cannot have much impact on the consideration of section 8 new construction and substantial rehabilitation proposals. Besides deconcentration, the site and neighborhood standards factor includes other

considerations, such as the site's environmental condition and the availability of utilities, shopping, and public facilities and services. Also, the entire site and neighborhood standards factor is only one of the seven factors upon which HUD numerically ranks a housing proposal.

Besides avoiding undue concentrations of assisted persons in low-income areas, the site and neighborhood standards also direct that new projects avoid areas of minority concentration. The standards provide that assisted housing may not be located in minority areas unless (1) there are "sufficient, comparable opportunities" for low-income minority families to live in nonminority areas or (2) there is an overriding need for the housing. However, the standards do not quantify or define a minority concentration.

In proposed revisions to the site and neighborhood standards, issued January 24, 1977, HUD attempted to quantitatively describe a minority concentration and an undue concentration of assisted persons. The proposals were never issued as a final regulation because the comments HUD received prompted it to await further evaluation.

In the interim, HUD's Assistant Secretary for Housing issued a notice clarifying the current site and neighborhood standards. The June 28, 1978, notice explained that "sufficient, comparable opportunities" could include both the units in approved HUD-assisted new construction projects in nonminority areas and the number of minority families who actually found section 8 existing units in nonminority areas. Thus, instead of defining the type of low-income or minority areas that proposed new housing should avoid, the notice explained only the conditions under which housing could be placed in minority-concentrated areas.

Housing units assisted under the section 8 existing housing program are not subject to the above-mentioned site and neighborhood standards. Although PHAs are encouraged to promote a greater choice of housing opportunities for participating lower income families, they are not directed to avoid units located in either low-income or minority neighborhoods. In fact, the HUD section 8 existing housing program regulations specify that PHAs shall in no way curtail participants' opportunities to choose among available units in the housing market.

Economically mixed housing

The section 8 program guidance also does not adequately describe how economically mixed housing is to be attained.

As directed by the HCD Act of 1974, the regulations for the existing housing, new construction, and substantial rehabilitation programs provide that at least 30 percent of the units be leased to very-low-income families. However, the section 8 programs have not restricted the amount of very-low-income participation or otherwise established procedures to assure that eligible families with a broad range of incomes will be assisted. In the new construction and substantial rehabilitation programs, the lack of more detailed tenant selection criteria could result in concentrations of very-low-income tenants within the HUD-assisted projects. Although the section 8 existing housing program involves individual units and is not project oriented, concentrations could still occur unless guidelines are developed which will allow PHAs to consider the tenant characteristics of other residents in the assisted units' building or project.

HUD has implemented the HCD Act of 1974's intent to develop new construction/substantial rehabilitation projects which also contain unsubsidized units. As directed by the act, HUD program regulations provide, in certain circumstances, that preference will be given to applications for assistance involving less than 20 percent of the units in a proposed project. However, as pointed out in a HUD study, developers are submitting few applications involving less than 100 percent assistance. Developers we visited in western Pennsylvania said that it is not economically feasible to construct projects for less than 100 percent assistance, because nonassisted persons would refuse to rent in projects with assisted persons. As a result, such projects would risk having constant vacancies.

Need to develop criteria to measure
section 8 deconcentration achievements

HUD has not designed a system to test the effectiveness of deconcentration as it relates to the section 8 housing program. HUD has not developed criteria or goals to measure the results of deconcentration achieved by the section 8 program or established a system to collect the information needed to assess section 8 deconcentration results. As a result, the effectiveness of the section 8 program's deconcentration of lower income persons is difficult to assess.

Officials at HUD's Philadelphia regional and Pittsburgh area offices told us that HUD has no formal procedures within its housing monitoring function or its review of HAPs to evaluate the extent of deconcentration being achieved via the section 8 program. In addition, according to headquarters and field officials, HUD does not have a standard to measure whether deconcentration is even occurring.

The following summarizes the results of studies made by us and by or for HUD relating to deconcentration and the section 8 program. Our study in western Pennsylvania showed that some deconcentration has been achieved when measured by certain criteria. However, we were unable to conclude whether deconcentration was being achieved because of the lack of an accepted basis for analyzing that concept. Also, it should be noted that the HUD studies were not made to evaluate deconcentration; rather, they were small parts of comprehensive section 8 studies.

GAO study in western Pennsylvania

Our study included a detailed analysis of all existing (1,006), newly constructed (205), and substantially rehabilitated (280) section 8 units occupied as of December 31, 1977, in four PHAs and five active section 8 projects in western Pennsylvania (see enclosure II). In addition to the five projects reviewed in detail, we analyzed the locations of all other occupied, or planned, newly constructed and substantially rehabilitated projects under the jurisdiction of HUD's Pittsburgh area office.

For the purposes of this study, a low-income area was considered to be a census tract whose median income was below 80 percent of the median income of the city or county in which the tract was located (based on the 1970 census), and a minority-concentrated area was defined as a census tract in which more than 40 percent of the residents were minorities (based on the 1970 census). These definitions were based on (1) the HCD Act of 1974's definition of a lower income family and (2) HUD's interpretation of an area of minority concentration as contained in its proposed revisions to its site and neighborhood standards (see p. 6).

The major observations we noted were as follows.

1. A higher percentage of the Pittsburgh area newly constructed and substantially rehabilitated section 8 projects than section 236 projects are in low-income areas. However, fewer section 8 projects than public housing projects are in such areas. While 48 percent of the 23 newly constructed and substantially rehabilitated section 8 projects occupied or planned for the Pittsburgh area on December 31, 1977, are in low-income areas, 57 percent of the 85 public housing projects in the Pittsburgh area are in such areas. But only 38 percent of the 66 section-236 projects are in similar areas.

2. None of the newly constructed and substantially rehabilitated section 8 projects in, or planned for, the

Multicontractor study of
section 8 existing housing program

Three contractors evaluated the section 8 existing housing program at the local level after its first year of operation. Each contractor participating in the study sampled 30 PHAs and about 400 program recipients. Among the observations made in the February 1978 report summarizing the findings of the three contractors were:

- The majority (ranging from 45 percent to 61 percent in the three contractor samples) of program recipients remained "in place" after receiving section 8 assistance.
- Persons moving to new census tracts generally moved into neighborhoods of above-average quality, as measured by the income, education, and occupation of their neighbors.
- Approximately 90 percent of a sample of section 8 new construction projects are completely subsidized and, thus, will not contain an economic mix of subsidized and unsubsidized tenants.

Berkely Planning Associates study

This study, performed by the contractor for HUD, was part of a national evaluation of the HAPs. The contractor reviewed eight SMSAs (standard metropolitan statistical areas) and three suburban areas. A report draft dated August 19, 1977, observed that:

- There had been a general dispersion of new construction and existing housing units throughout metropolitan areas, but no increase in low-income households moving to the suburbs.
- Twenty-seven percent of newly constructed and substantially rehabilitated units were in low-income census tracts (less than 65 percent of SMSA median income); 19 percent were in census tracts with minority concentrations; and 9 percent were in census tracts impacted with prior assisted housing.
- Generally fewer section 8 newly constructed and substantially rehabilitated units were in low-income or minority-concentrated census tracts, as compared with units built by assisted housing programs that preceded the section 8 program.

OBSTACLES TO DECONCENTRATION

Various obstacles could impede HUD efforts to achieve maximum deconcentration through the section 8 existing housing program. In our report entitled "Major Changes Are Needed in the New Leased-Housing Program" (CED-77-19, Jan. 28, 1977), we reported that HUD field personnel and PHA officials believe the following factors, among others, could prevent the deconcentration of lower income persons.

- Low FMRs for the program will, in many cases, restrict shoppers' choices to housing of marginal quality in minority and lower income areas.
- Section 8 regulations restrict participants' shopping range to the geographical limits of the PHA which issued the certificate of participation.
- Many recipients may wish to remain in minority or lower income areas because of racial, ethnic, family, or religious ties.

Our recent review indicates that these same factors may still be affecting the section 8 existing housing program.

For example, some HUD headquarters and field office officials and PHA officials--and representatives from the realty and development industries in western Pennsylvania--still contend that FMRs for existing housing are too low and restrict the amount of housing opportunities available outside low-income, minority-concentrated areas of some cities. We did not evaluate the adequacy of the section 8 existing housing FMR schedules. However, if these contentions are true, the opportunities for deconcentration would be lessened.

HUD regulations now encourage PHAs to promote a greater choice of housing opportunities by (1) seeking participation of owners in any area in which the PHA has determined that it is not legally barred from entering into contracts, (2) advising program participants of their opportunity to lease housing in all such areas, and (3) developing cooperative arrangements with other PHAs to allow program participants to seek housing in the broadest possible geographic area.

However, in a letter dated March 23, 1978, HUD's Assistant General Counsel for Low-Rent Housing pointed out that PHAs have not taken advantage of these provisions because of limitations under State laws and local political considerations. None of the four PHAs we visited in the Pittsburgh

area, for example, allow program participants to select housing units outside the PHA's jurisdictional boundaries. HUD and PHA representatives advised us that this is because PHAs in Pennsylvania are legally barred from entering into contracts outside their jurisdictions. This jurisdictional limitation also reduces program participants' freedom of choice of housing opportunities and, in some areas, may restrict participants' efforts to find suitable housing outside areas of low income and/or minority concentration.

We were again told, by HUD personnel, PHA officials, and section 8 project representatives in western Pennsylvania, that many recipients may wish to remain in their current units or in minority or low-income areas because of racial, ethnic, family, or religious ties. The data we collected at four PHAs supports this assessment, because about 73 percent of the existing housing units were rented to in-place tenants and almost half of these units were located in low-income or minority-concentrated areas.

PHAs AND SECTION 8 PROJECTS ANALYZEDPHAs

Housing Authority of the City of Pittsburgh
Pittsburgh, Pennsylvania

Allegheny County Housing Authority
Pittsburgh, Pennsylvania

Housing Authority of the City of McKeesport
McKeesport, Pennsylvania

Housing Authority of the County of Butler
Butler, Pennsylvania

Section 8 projects

Three Rivers Plaza
Pittsburgh, Pennsylvania

St. Augustine Plaza
Pittsburgh, Pennsylvania

Bellefield Dwellings
Pittsburgh, Pennsylvania

Shields Building
Wilkinsburg, Pennsylvania

Butler Arbors
Butler, Pennsylvania

Pittsburgh area are in minority-concentrated areas, but about 30 percent of both the section 236 projects and the public housing projects in the Pittsburgh area are in areas of minority concentration.

3. About 30 percent of the newly constructed and substantial, rehabilitated projects in, or planned for, western Pennsylvania are in nonmetropolitan areas; about 16 percent of the allocated existing units are in nonmetropolitan areas.

4. About one-half of the occupied existing units in the four PHAs are located in low-income and/or minority-concentrated areas.

5. Of the tenants who did move to newly constructed, substantially rehabilitated, or existing units, about 67 percent moved into neighborhoods with the same number of, or more, low-income and/or minority concentration characteristics as in their former neighborhoods.

6. In the five occupied newly constructed or substantially rehabilitated projects we visited, about 21 percent of the occupants were low-income persons, about 77 percent were very-low-income, and about 2 percent were in other categories. All five projects primarily serve elderly persons.

7. About 18 percent of the tenants in the existing housing program administered by the Pittsburgh Housing Authority are located in three HUD-assisted projects constructed under previous programs. These tenants do not include those who are receiving section 8 assistance under HUD's loan management assistance program in these three projects.

HUD field study

An August 1976 study by HUD's Office of Program Analysis and Evaluation evaluated various aspects of the section 8 existing housing program. The study covered about 2,000 families at 47 PHAs in 7 HUD regions. Among other things, this study found that most program participants remained in neighborhoods similar to those in which they previously resided. The study concluded that, while section 8 is resulting in deconcentration of low-income households into many different areas, it is not achieving racial or economic integration because tenants remain in areas of low-income or minority concentration.