UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

January 8, 1982

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-206027 RELEASED

The Honorable Jake Garn
Chairman, Subcommittee on
HUD-Independent Agencies
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

Subject: Contributing Causes of Financial and Management Problems in Public Housing Projects (CED-82-31)

In accordance with your September 1, 1981, request and subsequent discussions with your office, we have examined whether there are "common denominators" that may help explain causes of financial and management problems in lower income public housing projects. As your office requested, we focused on two areas affecting public housing operations: (1) the high density of projects and tenants within a given geographic area and (2) the size of the managing entity. Our objective was to determine whether these two factors have influenced financial and management problems more than other factors.

As your office requested, our work was based primarily on reports relating to public housing problems that have been issued by us and other private and public organizations. We solicited views and reviewed published materials from the Congressional Budget Office, the Congressional Research Service, the Department of Housing and Urban Development (HUD), the National Association of Housing and Redevelopment Officials; the Public Housing Authorities Directors Association, and the Urban Institute. Enclosure I lists the reference materials used in preparing this report. As agreed, the views and data published by other organizations were accepted as presented without further analysis by us.

Basically, we found that many factors, including project and tenant density and size of management entity, influence public housing operations. The high density of projects and tenants and management size do not appear to be any more important than other factors in causing public housing problems. Following is a summary of the impact that project and tenant density and management size have on public housing operations and a discussion of other factors, such as financial and social and neighborhood problems, that also affect public housing operations.

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REPORTS SHOW DENSITY AND MANAGEMENT SIZE CHARACTERISTICS ARE TWO OF SEVERAL RELATED FACTORS THAT INFLUENCE PUBLIC HOUSING PROBLEMS

Our review of various housing publications and reports and discussions with public housing specialists showed that no consensus exists on what specific factors have the greatest impact on the success or failure of public housing projects. There is agreement, however, that factors such as a project's physical or management characteristics do contribute to the severity of problems in public housing. But it has proven difficult to identify a common link between what makes a good project versus what makes a bad one. We found no studies or reports demonstrating conclusively a direct relationship between density and public housing problems or management size and poor management performance. We found only indications or generalizations being made as to their impact, and the extent of the impacts identified varied from report to report.

Density

Density factors, as defined by HUD, include those physical aspects of a housing project associated with design and construction that affect the physical environment of a housing development. Examples of project density and size factors are various types of site layouts, high-rise versus low-rise buildings, location, etc. According to many housing experts, there are no definitive guidelines for establishing the proper density or size of a housing development or for choosing between low-rise and high-rise buildings. However, implications from previous public housing project experiences and research findings strongly indicate that these factors can be a major obstacle to meeting public housing program needs.

As reported by the Urban Institute in 1980, "A New System for Public Housing--Salvaging a National Resource," in the 40-year history of public housing, in terms of architectural patterns on projects constructed in the largest cities, some of almost everything in public housing has been constructed. The study pointed out two common elements that bind together projects constructed in the largest cities during various periods. First, until very recently, the "scale" or project size was always very large. Generally, hundreds of units, whether high-rise or low-rise, were in a single project. Second, throughout most of its history, public housing authorities (PHAs) located their projects in deteriorating neighborhoods. The study found that public housing projects with very large density and poor location accounted for 27 percent of all troubled projects in the largest cities, but they experienced problems at a rate three times greater than their share of the public housing inventory.

HUD views many of the physical problems facing public housing projects to be specifically attributable to project density, including poor design and inadequate locations. In 1978, HUD conducted a nationwide field study entitled "Problems Affecting Low-Rent Public Housing Projects," which cited, among other things, several project characteristics that significantly increase the likelihood of a project being distressed or troubled, including some density-related factors such as size and location. The study also concluded that the characteristics of distressed projects point to the large PHAs having a higher rate of distressed projects.

Private and public housing officials also have recognized that projects with a large number of total units and large numbers of units within each building are indicators of serious public housing problems. The National Commission on Urban Problems in 1968 stated that problem projects were typically large highrises in big cities. The Commission believed that smaller buildings, scattered through a municipality or metropolitan area, would alleviate the anonymity and feeling of powerlessness in people that brought about anti-social behavior. Likewise, an Urban Institute study in 1974 of "Management Performance in Public Housing" reached similar conclusions. The institute found that the more successful projects tended to have lower densities.

Some PHA project managers with problems indicated that their projects are poorly designed and located on undesirable sites, and they considered these factors to be the most serious impediments to project success. The most common density problem cited by these project managers, however, appears to occur when building and unit sizes are mixed inappropriately on individual sites. Project managers indicated that these clusters of buildings are too densely developed. They contend that building and site designs do not provide defensible living space for project residents or significant control of access by outsiders to the project sites. The presence of many units in a particular project or building, for example, means that a project houses large numbers of children. This leads to increased rates of normal wear and tear and in some cases to vandalism which results in extraordinarily high costs for routine maintenance. Similarly, design configurations that create indefensible space and uncontrolled access to project sites require project managers to implement costly security measures.

Our September 1980 report (PAD-80-13) entitled "Evaluation of Alternatives for Financing Low- and Moderate-Income Rental Housing" supports the concerns of project managers. It stated that there have been badly planned and badly managed public housing projects. An oft-cited example is the Pruitt-Igoe project in St. Louis, Missouri. This project was a very large group of poorly located structures where hundreds of very low-income families were concentrated. Any project, regardless of how it is constructed, would be difficult to manage given those factors. In fact, large, FHA-insured, family-oriented projects have also had a similar history of management and financial difficulties.

HUD agrees that project density and physical condition have impeded project success, but it cautions that too many people tend to think that most public housing is similar to the Pruitt-Igoe project when there is diversity in both design and physical condition. "An Evaluation of the Physical Conditions of Public Housing," drafted in March 1981 by HUD, indicates that about 604 projects, or only 6.4 percent of the total universe, have serious health and safety problems.

Management size

The size of PHA management in relation to its total responsibilities appears to be another serious handicap in overcoming the problems of public housing. Some problems affecting PHA management size include deteriorating inventories, which are difficult to rent and costly to maintain; high rates of rent delinquencies; and community opposition to the program in general.

According to HUD in its guidebook for implementing the 1980 "Public Housing Urban Initiatives Program"--a program to stimulate better management in PHAs--PHA management deficiencies directly affect all aspects of local public housing program operations and costs. HUD believes that the difficulty of managing housing for low-income families in troubled urban environments has, in some instances, overwhelmed PHAs. In the guidebook, HUD states that the situation is sometimes compounded by local constraints that are difficult or impossible for a PHA alone to overcome. HUD cited a generally depressed local economy, staffing constraints imposed by local civil service rules, political pressures, or union demands as local factors affecting the PHAs' ability to effectively manage their projects.

According to HUD, management size problems are most pronounced in large PHAs, particularly in large family projects in problem neighborhoods of distressed cities. Some projects have experienced physical deterioration to the point that a high percentage of units are difficult to rent and/or are uninhabitable. According to HUD, most of these projects are found in neighborhoods of concentrated poor and minority populations in the large cities of the Northeastern and Midwestern States.

Inadequate HUD involvement in monitoring PHAs and providing technical assistance--two additional factors closely related to management size problems--has also been identified as a central factor in poor PHA management. According to HUD, a direct correlation appears to exist between limited HUD monitoring and technical assistance and PHA problems.

According to the Urban Institute, which has studied the management of public housing for over a decade and has issued several reports (see enclosure I), serious problems exist in the management

of some public housing projects. It cites tenant dissatisfaction, poor condition of project buildings, dissatisfaction of PHA employees, and high operating costs as evidence. In part, it appears that these problems may be alleviated to some extent by changes in management size. However, it is not easy to overcome poor decisions made in the past or factors over which PHAs have little control--such as neighborhood conditions and aging facilities.

HUD generally believes the management problems of public housing are being addressed, but it does not have the resources or the mandate to resolve some problems. HUD stated these problems are primarily social in nature and exist within the community at large as well as in the public housing projects.

OTHER FACTORS WHICH ALSO INFLUENCE PUBLIC HOUSING PROBLEMS

In addition to the density and management size factors, many other factors influence public housing problems. As stated before, however, we found no single measure for a PHA's problems or conclusive guide to what project characteristics make a good public housing project versus a poor one. For example, the Urban Institute in its 1974 analysis of management performance in public housing identified 225 relevant variables that affect public housing operations. They are divided into four categories, as follows:

--Criterion variables that measured the overall performance of the PHAs. Some examples of these variables are tenants' satisfaction with their apartments, their safety and security, and their neighbors; management evaluation of the condition of the project buildings and units; and PHA employees' satisfaction with their jobs.

--Control variables that measured environmental factors and PHA characteristics over which the PHA has little or no control but which influence its operation. These include neighborhood conditions, age and number of projects, etc. (Density, defined as a weighted average number of PHA units per area, was among the factors evaluated, but it was judged to be one of the less significant factors.)

--Income and expense variables that measured the actual income and expenses of PHAs.

--Management variables that described management policies, decisionmaking procedures, and the specific practices and attitudes of PHA staff. (The management size factor, per se, was not included among these factors).

Another study exemplifying the number of various factors involved in evaluating the problems of PHA operations is the previously mentioned HUD study performed in 1978 entitled "Problems Affecting Low-Rent Public Housing Projects." As with other reports that we reviewed, the study stressed that no conclusive interpretations can be made of these factors and that only indications or generalizations can be made from them regarding the severity of the serious financial and management problems in public housing. The study found several kinds of problems/factors repeatedly faced by public housing projects, which it categorized as follows:

--Physical problems that encompass deficiencies in the integrity and quality of structures and systems, inadequate maintenance, and design flaws involving project sizes and densities.

--Managerial problems that capture the failure of HUD, PHA, or project-based management to adequately establish and implement a variety of operational policies and procedures.

--Financial problems that reflect rising project expenses, low rental incomes, and reported inadequacies of HUD's Performance Funding System.

--Social problems that include crime, drug use, the absence of needed social services, the shortcomings of public services, and negative neighborhood conditions.

The HUD study generalized that the problems of "troubled" projects or those found to be in an unsatisfactory condition are aligned with all four of the above problem classifications. The first two of the factors are related to density and management size factors, which were discussed previously; the financial and social factors are discussed further below.

Financial problems

Financial problems, the most notable of which result from substantial operating deficits, can be attributed to a combination of very low-income tenants, legislative limitations on rental charges, and inflation in operating expenses, especially increases in utility costs. In response to financial problems, HUD has increased Federal operating subsidies each successive year. Despite the funding rise, a trend toward deferral of necessary repairs and maintenance has persisted, with many PHAs (most notably the larger ones) failing to meet expenses.

For example, until 1968 HUD contributed funds to cover only the debt service on PHA projects. In 1968, however, in order to assure the continued operation of PHAs, HUD began to provide funds to subsidize their operating and maintenance costs. Total PHA

operating subsidies, which are allocated through HUD's Performance Funding System, have increased from about $475 million in 1975 to about $1.2 billion for fiscal year 1982.

Even this increase in Federal operating subsidies has not been sufficient to overcome the financial problems of PHAs. HUD has had to repeatedly request supplemental appropriations, and some PHAs have had to rely on advances of Federal operating subsidies. In addition, critics of the Performance Funding System have maintained that it does not provide adequate funding to cover rising inflation costs or cover the increased needs of the larger PHAs. At the same time, the amount of Federal operating subsidy requested by HUD has been less than the actual amount determined to be necessary under the Performance Funding System. Altogether, this shortfall in funding to operate and maintain PHAs results in sharply decreased cash flow and a questionable ability to pay bills when due, including utilities. If this situation persists, critics expect severe public housing operating problems to continue.

Social and neighborhood problems

Public housing problems are not simply the result of legislative, financial, and institutional shortcomings. They are also a function of the environment--social and neighborhood factors--and in that sense, of forces beyond the program's immediate control. HUD cannot itself change the neighborhood environment or the financial and social circumstances of public housing residents except in rather modest ways.

According to HUD, social problems affecting behavior of tenants associated with poverty, discrimination, and deprivation need to be addressed. A large percentage of public housing families are welfare clients or multiple-problem families with little or no prospects for employment or significant economic advancement.

HUD, in its guidebook for implementing the Public Housing Urban Initiatives Program, states that the ratio of children per adult is high, as is the incidence of one-parent households. HUD also reported that many projects are wholly or largely occupied by minorities, reflecting the special difficulties of poor minority families. Crime and vandalism are among the most urgent problems on many public housing projects in urban neighborhoods. Drugs and alcohol are common problems. Social services are often inadequate or unavailable. In these situations, HUD stated that neighborhood cooperation and civic responsibility tend to be low.

Neighborhood problems often contribute to the problems of public housing projects. Many problem projects are in isolated areas where the project constitutes a neighborhood to itself, cut

off from private and public facilities. Others are in densely populated areas characterized generally by physical, economic, and social decay. As indicated in HUD and Urban Institute studies, even with generous funding and the best management, it is difficult for any one project to overcome the adverse influences of such surrounding neighborhoods. The failure in some instances of the local government to deliver basic municipal services (e.g., police and fire protection, trash removal, street maintenance) worsens the situation.

CONCLUSION

Our review of various housing publications and reports and discussions with public housing specialists showed that no consensus exists on what specific factors have the greatest impact on the success or failure of public housing projects. Factors such as a project's physical or management characteristics do contribute to the severity of problems in public housing. But it has proven difficult to identify a common link between what makes a good project versus what makes a bad one. We found no studies or reports demonstrating conclusively a direct relationship between density and public housing problems or management size and poor management performance. We found only indications or generalizations being made as to their impact, and the extent of the impacts identified varied from report to report.

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As requested, we did not obtain written agency comments on our report. However, our report is based on several HUD publications and reports and it was discussed with the Director of HUD's Office of Public Housing.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director

ENCLOSURE I

REFERENCE MATERIALS USED

IN PREPARING THIS REPORT

GAO reports

"Evaluation of Alternatives for Financing Low- and Moderate-Income Rental Housing" (PAD-80-13, Sept. 30, 1980).

"Local Housing Authorities Can Improve Their Operations and Reduce Dependence on Operating Subsidies" (RED-75-321, Feb. 11, 1975).

"Serving a Broader Economic Range of Families in Public Housing Could Reduce Operating Subsidies" (CED-80-2, Nov. 7, 1979).

Congressional Budget Office reports

"Federal Housing Policy: Current Programs and Recurring Issues," June 1978.

"Housing Assistance for Low- and Moderate-Income Families," February 1977.

Congressional Research Service reports

"Descriptions and Evaluations of Selected Housing Subsidy Programs," April 8, 1980.

"Housing Assistance to Low- and Moderate-Income Households," August 5, 1981.

"The Future of Conventional Public Housing: Some Views of Local Housing Officials," July 1979.

HUD reports and publications

"A Guidebook: Public Housing Urban Initiatives Program," June 1980.

"An Evaluation of the Physical Conditions of Public Housing" (draft), March 31, 1980.

"Crime in Public Housing: A Review of Major Issues and Selected Crime Reduction Strategies," December 1978.

"Evaluation of the Performance Funding System Summary Report" (draft), September 10, 1981.

"Exploring New Strategies for Improving Public Housing Management," July 1979.

"Problems Affecting Low-Rent Public Housing Projects," January 1979.

"Resident's Satisfaction in HUD-Assisted Housing: Design and Management Factors," March 1979.

Public Housing Authorities Directors' Association publications

"Issues Confronting the Public Housing Programs," September 10, 1981.

Urban Institute publications

"A New System for Public Housing--Salvaging a National Resource," 1980.

"Alternatives for Funding Public Housing Operating Subsidies," August 26, 1981.

"Management Performance in Public Housing," January 1974.

Other reports

"Housing: Federal Policies and Programs," American Enterprise Institute for Public Policy Research, 1980.