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# PUBLIC HOUSING

## HUD's Takeover of the Chicago Housing Authority

Statement of Judy A. England-Joseph,  
Director, Housing and Community Development Issues,  
Resources, Community, and Economic Development Division



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss troubled public housing, in particular the takeover by the Department of Housing and Urban Development (HUD) of the Chicago Housing Authority (CHA). Over a dozen large public housing authorities (PHA) are "troubled" because they do not score high enough against HUD's management assessment criteria. These low performances are generally due to a combination of factors at the PHAs, including ineffective management, inability to productively use federal funding assistance, and deteriorated housing stock.

As a result, HUD recently has focused highly structured "recovery" efforts at several large troubled authorities to upgrade them from troubled status. When recovery fails, however, more drastic actions can occur, such as the court-appointed receivership in the District of Columbia or the HUD takeover 2 weeks ago in Chicago. However, these kinds of actions are rare. During the past 16 years, many large authorities have remained troubled for 10 years or more without HUD taking strong corrective actions. Although these chronically troubled authorities manage 14-percent of all public housing and account for most of the distressed developments, troubled authorities represent only 92 out of the nation's 3,300 housing authorities.

Today we will discuss the long-standing problems at the Chicago Housing Authority, our view of the HUD's capacity to take over troubled authorities, and several administration proposals to enhance a housing authority's ability to overcome its distressed housing. Our statement is based on our ongoing work for this Subcommittee as well as reports that we have issued and testimony that we have given over the past several years.

In summary,

- the Chicago Housing Authority has a long history of troubled management and distressed housing conditions that stem, in part, from deficient management systems; aging, deteriorated, and poorly designed stock; and the very-low-income levels of residents;
- HUD's ability to effectively take over the operations of a troubled housing authority has been hampered in the past, in part because of limited resources and staff expertise; however, key officials with housing management expertise have joined HUD in the past 2 years and the long-run benefits of taking such a drastic action outweigh the costs of continued troubled status; and

-- proposed statutory changes, such as repealing the one-for-one replacement requirement, reforming rent calculation rules, and changing public housing eligibility criteria could result in better use of available federal funds for assisted housing.

## BACKGROUND

Troubled large public housing authorities have been persistent problems for HUD's assisted housing program for many years. While a relatively small number--13 of the nearly 100 large PHAs--account for about 14 percent of the 1.4 million units of public housing nationwide; these authorities account for most of the distressed, dilapidated, and boarded up housing stock. Even though some distressed housing can be found in even a high-performing PHA's inventory, a troubled authority is much less able to remedy the distressed conditions than one in good shape.

In 1979, HUD began to focus on low-performing PHAs and classified 23 large (those with more than 1,250 units) PHAs as troubled at that time, and five of these authorities still remain on the current list (see app. I). They are in Philadelphia, Detroit, New Orleans, Chicago, and Washington, D.C. To measure a PHA's performance, HUD developed the Public Housing Management Assessment Program (PHMAP) that scores PHAs on a series of performance indicators--including vacancy rates, use of modernization funds, and housing conditions. An authority is designated as troubled if it achieves a score of 60 or below. In 1994, HUD substantially revised its oversight approach by creating an Office of Distressed and Troubled Housing Recovery that focuses on proactive outreach to troubled authorities. The office provides troubled authorities with direct, on-site assistance from experienced teams of housing professionals and major funding to rehabilitate distressed housing.

HUD provides all PHAs with operating subsidies and funds to build and modernize public housing. In return, the PHAs agree to provide housing that meets HUD's standards. If a housing authority does not meet the standards, HUD can take corrective action and, if necessary, take over the assets and management of the authority. Since 1979, HUD has initiated takeovers at large housing authorities in Chester, PA, Philadelphia, East St. Louis, and Chicago; court-appointed receivers have taken over authorities in Kansas City, Boston, and the District of Columbia.

## CHICAGO HOUSING AUTHORITY: A LONG HISTORY OF MISMANAGEMENT AND POOR HOUSING CONDITIONS

With over 40,000 units, the Chicago Housing Authority is the third largest PHA after New York and Puerto Rico. Yet in contrast to the well-run New York authority, HUD ranked CHA among the worst (see app. II for CHA's PHMAP scores for 1993-1995). In 1989, we

reported that CHA had had longstanding management problems in virtually all operating areas.<sup>1</sup> Our analysis of 48 reports issued by various sources and covering the period 1979 to 1987 showed material weaknesses in CHA's internal control systems, poor fiscal responsibility, and frequent turnover of top management. We said that CHA operated for years without reasonable assurance that federal funds were adequately safeguarded against waste, loss, or misuse.

In 1989, we reported that deteriorating buildings, damaged heating and water systems, broken elevators, and roach and rodent infestation were commonplace at many projects. Abusive tenants had also contributed to this situation. At that time, CHA estimated that it would need about \$1 billion over a 5-year period to upgrade its projects. After receiving modernization grants of over \$100 million each year from 1991 through 1995, CHA's estimate of its funding needs to modernize its stock is still over \$1 billion.

Additional insight into CHA's problems, especially its recent conditions, is available from a consultant report completed for HUD.<sup>2</sup> This report highlighted the following conditions at CHA:

- CHA's high-rise family projects were built in excessively large concentrations. For example, Robert Taylor Homes and Stateway form one continuous 6,059-unit development. In contrast, the average size of New York's public housing high-rises is 1,000 units.
- CHA's high operating costs are due in part to the relatively high percentage of its residents being on welfare: 68 percent compared to New York's 25 percent.
- CHA has experienced an especially marked increase in the number of public housing households with incomes below 10 percent of the local area median income, indicating extreme economic disadvantage.

The consultant report also noted many organizational issues that impede CHA's ability to effectively manage its total program. Among the problems noted were the following:

- large and loosely structured middle management that impedes program accountability and causes operational inefficiencies;

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<sup>1</sup>Public Housing: Chicago Housing Authority Taking Steps to Address Long-standing Problems (GAO/RCED-89-100, June 8, 1989).

<sup>2</sup>Chicago Housing Authority: Management Capacity Assessment, TAG Associates, Inc., (Norwood, MA: Sept. 1994)

- inability to consistently set and enforce performance standards throughout the agency; and
- inability, despite extraordinary efforts, to control the general living environment--management rules, security, and physical conditions--at certain housing developments.

HUD HAS BEEN RELUCTANT TO TAKE  
OVER TROUBLED PHAS

According to HUD's OIG and an official its District of Columbia field offices, HUD is reluctant to take over troubled authorities because the Department lacks the resources and confidence that it can succeed in turning around the authority. On the other hand, HUD top management told us that the Department is staffed with key officials who have experience in operating large and troubled PHAs. These officials are now learning how to marshal that expertise to effectively take over a troubled authority. Still, when key officials are deployed to a takeover, it creates a need to backfill their posts with other staff. HUD field office and headquarters officials told us that when HUD field staff are temporarily assigned to take over the operations or participate in the recovery of all or part of an authority, they are unavailable to perform their primary duties overseeing PHAs in their home jurisdiction.

In May 1987, HUD's Chicago field office recommended that HUD place CHA in the hands of private management. In addition, the Philadelphia Regional Office recommended that HUD take over the District's housing authority. In both instances, HUD headquarters decided not to follow the field or Regional office's recommendation, and in both cases the authorities have ultimately been taken over--one by HUD and one by a receiver.

The cost of taking over this authority may be high because of the need to rehabilitate much of its 40,000 units of public housing and the associated costs of administration. We believe that estimating the takeover cost will be difficult because of the large but undetermined balance of unspent federal funding accumulated by CHA. We reported in 1994 that CHA's public housing program has \$472 million in approved funds, and, according to a HUD official in HUD's recovery office, most of this funding is still available for CHA's use.<sup>3</sup> HUD officials believe that other funds granted to CHA but not yet spent may also be available. With CHA officials estimating that about \$1 billion will be needed to rehabilitate CHA's distressed housing and address its unmet housing modernization needs, the unexpended balance of earlier grants may be available to offset the needed funds for rehabilitation.

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<sup>3</sup>Public Housing: Information on Backlogged Modernization Funds  
(GAO/RCED-94-217FS, July 15, 1994).

However, competent management will be needed to ensure these funds are employed productively.

Notwithstanding the possible availability of federal funds already allocated to CHA, the total cost of turning around the authority is high. However, these costs could be outweighed by the costs of not taking over CHA. CHA's current vacancy rate is 17 percent, or over nearly 7,000 units. At an average rental of about \$2,000 per year, CHA has been losing over \$14 million per year in rental income due to vacancies. This income must be made up with federal funding to subsidize CHA's operating costs. Moreover, as we have testified in the past, housing authorities spend millions of dollars on vacant properties and more money to rehabilitate aging buildings than it would cost them to construct new ones.<sup>4</sup> In addition, backlogged modernization funds mean that rehabilitation is not being done and deterioration is escalating along with the crime and vandalism associated with vacant buildings.

PROPOSED STATUTORY CHANGES COULD HELP PHAS TO PROVIDE BETTER HOUSING ASSISTANCE WITH THE SAME LEVEL OF FEDERAL FUNDING

Several statutory changes proposed as part of HUD's American Community Partnerships Act have the potential for helping housing authorities provide better assistance to low-income families. These changes include repealing the requirement that PHAs must replace on a one-for-one basis any nonviable housing units they tear down or sell or at least provide certificates for equivalent rental assistance. Two other important proposals include (1) reforming current rules for rent calculations for tenants of public housing so working families are not penalized and (2) relaxing federal preference rules that force PHAs to favor the lowest income families when filling vacancies in public housing so PHAs can attract higher-income families. HUD believes that adopting this proposal would not only raise rent collections but also provide role models for other tenants.

According to officials at several large PHAs, constraints related to the "one-for-one" requirement either make it difficult for PHAs to tear down housing that costs more to maintain than replace or, in some cases, prevent them from doing so. These constraints include insufficient federal funding for new housing or other replacement assistance and a lack of suitable sites for replacement housing. Not tearing down nonviable housing leads to excessive operating costs, inefficient use of federal subsidies, and the costly crime and vandalism associated with vacant public housing.

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<sup>4</sup>Public Housing: Housing Agency Officials Want More Flexibility in Replacing Deteriorated Housing (GAO/T-RCED-94-159, March 22, 1994).

Reforming rent calculations and federal preference rules could raise the average income of tenants in public housing. Raising average income could, in turn, reduce the operating subsidies HUD pays to housing authorities. Currently, working families pay 30 percent of their adjusted income as rent in public housing. Moreover, 30 percent of any increases in the incomes of family members must also be paid as rent. This presents a significant disincentive to work. Also, current law requires housing authorities to offer vacant units to the lowest-income families first. These two requirements contribute to the decline of average public housing incomes from 34 percent of area median in 1982 to 16 percent in 1995, and for operating subsidies increasing from \$1.9 billion in 1990 to \$2.9 billion in 1995 (both amounts in nominal dollars).

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In conclusion, Mr. Chairman, we believe that HUD's recovery efforts at large troubled housing authorities--and its more drastic move to take over housing authorities such as CHA--are important first steps. These steps signal that the federal government will not tolerate poorly managed, federally funded assisted housing. Essential to this leadership is the capacity and sustained commitment to resolve the management problems that threaten the viability of low-income housing. Legislative proposals, such as those suggested by HUD to help working families, can provide housing authorities with greater flexibility to make public housing viable and promote economic self-sufficiency.

We believe that the focused nature of HUD's recovery teams and the exercising of takeover rights are essential actions. However, even with the recent addition of key officials with housing management expertise, we are concerned about HUD's capacity, particularly in the longterm, to maintain sustained commitment necessary to address the problems of chronically troubled housing. The critical next steps to ensure that HUD's intervention at CHA and other troubled authorities results in sorely needed improvement will be the most telling.

Mr. Chairman, this concludes my statement. We would be pleased to answer any questions that the Subcommittee Members might have at this time.



Table I.1: TROUBLED PUBLIC HOUSING PERFORMANCE AND FUNDING

PHA	Number of Units	PHMAP Score (as of 1/95)	Years Troubled (as of 1/95)	HUD FY 1995 Recovery Budget	HOPE VI Funding (millions)
Allegheny County, PA	4,052	37.50	<sup>a</sup>	\$ 75,634	\$ 0
Atlanta, GA	14,722	36.59	1979-1982; 1990-1995	1,079,921	42.4
Chester, PA	1,717	50.00	1991-1995	876,130	0
Chicago, IL	40,119	46.38	1979-1995	307,424	50.0
Detroit, IL	8,994	37.60	1979-1995	3,033,732	87.9
District of Columbia	11,786	22.38	1979-1995	2,052,093	15.7
Jacksonville, FL	3,444	54.67	1979-1984; 1990-1995	25,000	0
Kansas City, MO	2,058	51.46	1991-1995	774,500	47.6
Memphis, TN	7,089	56.13	<sup>a</sup>	775,000	47.8
New Haven, CT	3,555	59.87	1979-1995	75,000	45.3
New Orleans, LA	13,414	48.21	1979-1995	510,060	44.3
Philadelphia, PA	22,766	28.86	1979-1995	2,249,738	50.0
Pittsburgh, PA	9,392	46.42	<sup>a</sup>	186,000	31.6
Puerto Rico	57,800	53.00	1982-1995	369,780	50.0
Spartanburg, SC	1,555	53.46	<sup>a</sup>	0	0
Springfield, IL	1,479	57.61	1979-1981; 1991-1995	75,000	19.8
TOTALS				\$ 12,465,012	\$ 532.4

Source: HUD Office of Distressed and Troubled Housing Recovery

<sup>a</sup>Data not available

PUBLIC HOUSING MANAGEMENT ASSESSMENT PROGRAM (PHMAP)

HUD's Public Housing Management Program implements section 502(a) of the National Affordable Housing Act of 1990 and evaluates the performance of PHAs in 11 major areas of management operations. The PHMAP provides the HUD with a system of measuring PHAs' performance using standard indicators for all PHAs. The following table depicts CHA's PHMAP scores for the past three years.

Table II.1: Public Housing Management Assessment Program Performance Indicators - Chicago Housing Authority

Indicator	Indicator Description	Score for Fiscal Year			
		1991	1992	1993	1994
#1	Vacancy (Number & Percent)	0	5.0	3.0	3.0
#2	Modernization Program	7.13	9.25	10.0	7.5
#3	Rents Uncollected	0	3.0	0	5.0
#4	Energy Consumption	8.50	7.0	10.0	10.0
#5	Unit Turnaround	0	0	0	0
#6	Outstanding Work Orders	7.0	7.0	5.0	8.5
#7	Annual Inspection: Unit Condition and Systems	1.25	2.31	2.13	6.06
#8	Tenant Accounts Receivable	0	0	0	0
#9	Operating Reserves	0	0	7.0	0
#10	Routine Operating Expenses	7.0	7.0	10.0	0
#11	Resident Initiatives	10.0	10.0	10.0	10.0
	Total Score	33.6	47.8	46.4	50.3

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