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PUBLIC HOUSING

Status of HUD's Takeover of  
the Chicago Housing  
Authority

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Mr. Chairman and Members of the Subcommittee:

We are here to discuss recent events at the Chicago Housing Authority (CHA) related to its May 30, 1995, takeover by the Department of Housing and Urban Development (HUD). HUD's takeover was necessary because the poor physical condition of CHA's extensive housing stock and the troubled management of the housing authority, among other longstanding problems, had made improvements at CHA practically impossible.

Today, this Committee is addressing a series of questions that include the following: (1) From among several intervention alternatives, did HUD choose the most appropriate one by using temporary staff from HUD and other housing authorities and industry groups? (2) What obstacles will HUD face as it tries to plan for the rebuilding of CHA? (3) What has HUD accomplished in the past 3 months and what additional steps can HUD take to ensure not only the recovery but the sustained revitalization of Chicago's public housing? Our testimony is based on our ongoing work on low-income housing issues and our recent work on community development for your committee.

We would like to summarize our views on these questions and then turn to a more detailed discussion of them.

- First, once HUD decided to intervene into the management of CHA, several intervention strategies were available, including seeking a third party (court-appointed receiver) to manage the housing authority, replacing CHA management with a professional housing manager, or assigning HUD staff to manage CHA. Because CHA's executive director, board of directors, and other key staff resigned, and Chicago's mayor did not support receivership, HUD's decision to take over CHA with its own and borrowed staff appeared to be the best option available.
- Second, as HUD works to rebuild CHA, it will face significant obstacles, including the deteriorated condition of much of CHA's 40,000 housing units, CHA's cumbersome organizational structure, residents' distrust of proposed changes, substantial security and crime problems, geographic and social isolation from the rest of the Chicago community, federal laws and regulations, and insufficient funding. Because of the severity of these problems, the recovery of CHA will continue into the next century.
- Finally, during the last 3 months, HUD has reorganized CHA's management; taken steps to privatize selected functions; and developed short-term plans to improve maintenance and security, rehabilitate its physical stock, and foster community development. However, HUD has not selected a new executive director nor hired some key upper-level managers. In addition, HUD has not committed to a long-term plan for phasing itself

out of CHA and installing a permanent management team. Committing to and making progress toward such a plan is necessary if CHA is to gain the trust and cooperation of residents, CHA staff, and the city.

#### BACKGROUND

CHA is one of our nation's largest public housing authorities. After the housing authorities in New York City and Puerto Rico, the Chicago Housing Authority ranks third in size with about 40,000 housing units. Over 15,000 of these units are in high-rise buildings and need extensive repair. According to CHA, renovating these buildings will cost about \$1 billion, an average of over \$66,000 per unit. Compounding these deteriorated housing conditions is CHA's long history of mismanagement. Since 1979, HUD has rated CHA among the poorest performing housing authorities. In May 1987, HUD's Chicago Field Office recommended that HUD place CHA in the hands of private management due to the authority's inability to manage its housing stock. No action was taken on its field office's recommendation. Subsequently, in 1989, we reported that CHA had long-standing management problems in virtually all operational areas and severely distressed housing conditions.<sup>1</sup> Moreover, a 1994 evaluation by the consulting firm of TAG Associates, Inc., found that CHA's management problems and property deterioration had continued and recommended that significant actions be taken to improve conditions.<sup>2</sup>

#### HUD'S TAKEOVER OF CHA

Over the 15 years that CHA has been on HUD's troubled housing list,<sup>3</sup> HUD has tried several approaches--short of taking direct control--to improve the conditions at this severely troubled housing authority. In May of this year, HUD officials met again with CHA management to discuss the authority's troubled status. The subsequent resignation of CHA's executive director and board of directors left a substantial void in the leadership at that time. With these resignations and the immediate need to provide day-to-day management for the authority, HUD had few alternatives including taking control of the CHA with its own staff. Other alternatives included contracting with a private manager or

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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).

<sup>3</sup>HUD classifies public housing authorities as "troubled" if they score less than 60 out of 100 points against a set of 12 performance indicators. Currently, HUD rates 92 of the 3,300 authorities as "troubled."

petitioning the courts for a receiver. These alternatives, however, required additional time to accomplish.

Receivership did not appear to be a reasonable option following the board members' resignations. HUD had neither the time nor the resources to seek a receiver to assume management of CHA. According to a HUD and city official, Chicago's mayor did not favor receivership, but would agree to HUD's taking control of CHA. The mayor's resistance could have delayed appointing a receiver as occurred in other cities like Boston, MA, and Washington, D.C.

Because of the circumstances HUD faced in May 1995 HUD's decision to take control of CHA with its own staff, on balance, appears to have been the best option available. The immediate need for leadership prevented HUD from taking the time to exercise other options, such as contracting with a property management firm. Nevertheless, private management and receivership are still viable options for developing long-term solutions to CHA's problems. We note that HUD is currently considering a change in its regulations to require Departmental intervention when a housing authority has been unable to improve its performance over a specified period of time. Under such a requirement, there would have been no question about the consequences of CHA's chronic low performance and HUD's responsibility to intervene. This type of requirement could alert housing authorities, motivate them to improve their performance, and stimulate needed improvements or other actions at several other large housing authorities that, like Chicago, have been troubled for over a decade. Working against the effectiveness of this requirement, according to HUD's Assistant Secretary of Public and Indian Housing, is that the Department may not have in the future the expertise to manage several troubled housing authorities at one time.

#### HUD FACES SIGNIFICANT OBSTACLES THAT WILL TAKE YEARS TO OVERCOME

As HUD tries to rebuild CHA, it will face many challenges. According to the conditions we have witnessed at CHA, documents we have reviewed, and statements made by HUD officials currently struggling to stabilize the authority, obstacles to this recovery include

- the need to demolish or rehabilitate 15,000 high-rise housing units--at a cost estimated by CHA of \$1 billion--against the wishes of distrusting tenants and within the agreements that CHA has with over 20 labor unions whose work rules often make contracting for and accomplishing repairs a cumbersome and time-consuming process;
- CHA's top-heavy organizational structure and the ineffectiveness of the authority's maintenance, finance, accounting, and management information systems;

- gangs that threaten residents, visitors, and CHA staff, even though CHA spent \$70 million last year on the security of its public housing residents;
- reduced federal funding and a public housing community that has been historically isolated by the greater Chicago community, a community that needs to be made part of the solution to sustain any improvements made by HUD staff; and
- federal statutes and regulations, such as rent rules that discourage people from working and admission rules that favor the lowest-income families to fill vacancies, thus promoting increasing operating subsidies to offset lower rental income.

#### HUD HAS MADE PROGRESS, BUT LONG-TERM PLANNING IS ABSENT

During the last 3 months, HUD has made progress in achieving the recovery goals set for CHA shortly after the takeover. Staff from HUD and private consultants are working at CHA on both a full- and part-time basis to restructure the organization and address operational deficiencies. However, HUD has not taken some additional steps needed to ensure CHA's long-term success. For example, HUD has not hired an executive director and other upper-level management. In addition, HUD has yet to develop a long-term recovery plan that demonstrates, among other things, how it intends to devolve responsibility for day-to-day management and policy-making back to CHA. Without hiring permanent CHA management and planning for the future, HUD is unlikely to encourage increased involvement and long term commitment by stakeholders in actions needed to turn around CHA and make it part of the broader community and economic development.

#### HUD Is Making Progress Toward Short-term Goals

In a June 11, 1995 memorandum, HUD Deputy Assistant Secretary Marchman, acting as CHA's interim executive director, stated a series of recovery goals for strengthening CHA that included specific improvements to the physical stock, organizational structure, and management systems. Over the past 3 months, many of these goals have been built into a 120-day action plan and HUD has made some progress toward achieving them. However, CHA's troubled conditions at the time HUD took over make it difficult to expect substantial improvement in residents' quality of life before the end of the year.

Since the takeover, HUD has condensed the organizational structure, has taken steps to privatize selected housing functions such as the Section 8 program, hired additional police, and has continued redevelopment of selected properties. In addition, HUD

is revising tenant admission, occupancy, and eviction policies, overhauling maintenance operations, and improving budgeting, accounting, and procurement systems.

#### HUD Has Not Developed a Long-Term Plan

HUD has yet to develop a long-term plan describing the direction it will be leading CHA and its residents after the goals in the 120-day plan have been met. HUD officials recognize the need for a long term plan. A long-term plan would help address such issues as comprehensive rehabilitation of the housing stock, resident satisfaction, quality of resident services, progress toward community enhancement and development, and the quality of the relationship between the housing authority and the other key parts of the broader community. The long-term plan also might help determine how HUD would extricate itself from the day-to-day management of CHA and to whom HUD will turn over responsibility for managing the authority in the future. The plan could also set forth the objectives and milestones that need to be met before HUD withdraws from CHA and HUD's role after the transition. Furthermore, including tenant, city, and community organizations in developing the plan would foster their support of the changes that must be made to solve the problems of Chicago's public housing.

An important element of the long-term recovery plan is an ongoing assessment of progress. HUD officials are attempting to establish accurate baseline data for maintenance, finances, inventories, and other areas to measure the success of their efforts at CHA. According to public housing experts and others familiar with CHA's conditions, additional indicators of improvement should include vacancy rates, rent collections, unit turnaround time, and modernization. Such indicators, however, are only useful for evaluating trends in a housing authority's performance over an extended period. In the near term, HUD expects that CHA vacancy rates and unit turnaround times may actually increase as new occupancy and tenant screening policies are put into effect.

#### Creating a Sustainable Community Requires Commitment

HUD's short-term plan for the CHA identifies the steps needed to change the community and economic environment of public housing neighborhoods in Chicago. Our work in community development shows that success in distressed neighborhoods is most probable when the complex, interrelated problems they face are addressed in tandem and when commitment from all stakeholders is sustained over a long

period.<sup>4</sup> Integrating public housing into the larger community is important because the average income of CHA residents (many of whom are below 10 percent of area median family income) would rise if greater economic activity existed in the areas around housing authority developments. However, the public housing is often in neighborhoods where there are no jobs and little or no commercial activity. Because businesses have moved out, poverty has increased, and public and private services have been reduced in these neighborhoods, community development experts cautioned us that significant improvements may take a generation or longer to achieve.

While HUD's plan to create mixed-income neighborhoods to reduce residents' isolation and help them become part of the nearby community is a beginning, the plan also needs to go beyond housing to encompass all aspects of community development, including social services and economic development. To gain widespread commitments, the entire community--from nearby and public housing residents to local businesses and service providers--should participate in developing components of the plan. Ideally, it would include partnerships with foundations and corporations to provide funding and expertise, but also incorporated into a larger citywide plan that addresses housing, economic development, and social services needs for the whole Chicago area. Developing such a plan will not be an easy task.

Creating sustained community commitment can be a time-consuming, multistep process that involves many stakeholders. Although results may not be visible for many years, involving the CHA in existing community development activities such as the Empowerment Zone<sup>5</sup> would be beneficial. Although this zone includes many CHA public housing developments, it will be years before these neighborhoods realize significant economic development.

Despite outreach efforts by the city's planning department and the importance of community involvement, residents generally have little confidence in CHA's ability to manage its properties. As a result, residents will likely continue to be apathetic and skeptical about community development efforts until their basic housing needs are met satisfactorily. Similarly, business and community leaders have been hesitant to commit to new initiatives without a clear understanding of how CHA will effectively manage

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<sup>4</sup>Community Development: Comprehensive Approaches Address Multiple Needs but Are Challenging to Implement (GAO/RCED/HEHS-95-69, Feb. 8, 1995).

<sup>5</sup>The Empowerment Zone and Enterprise Community program promotes the comprehensive revitalization of distressed communities by funding broad, community-based strategic plans. Chicago was designated as one of six Empowerment Zones in December 1994.

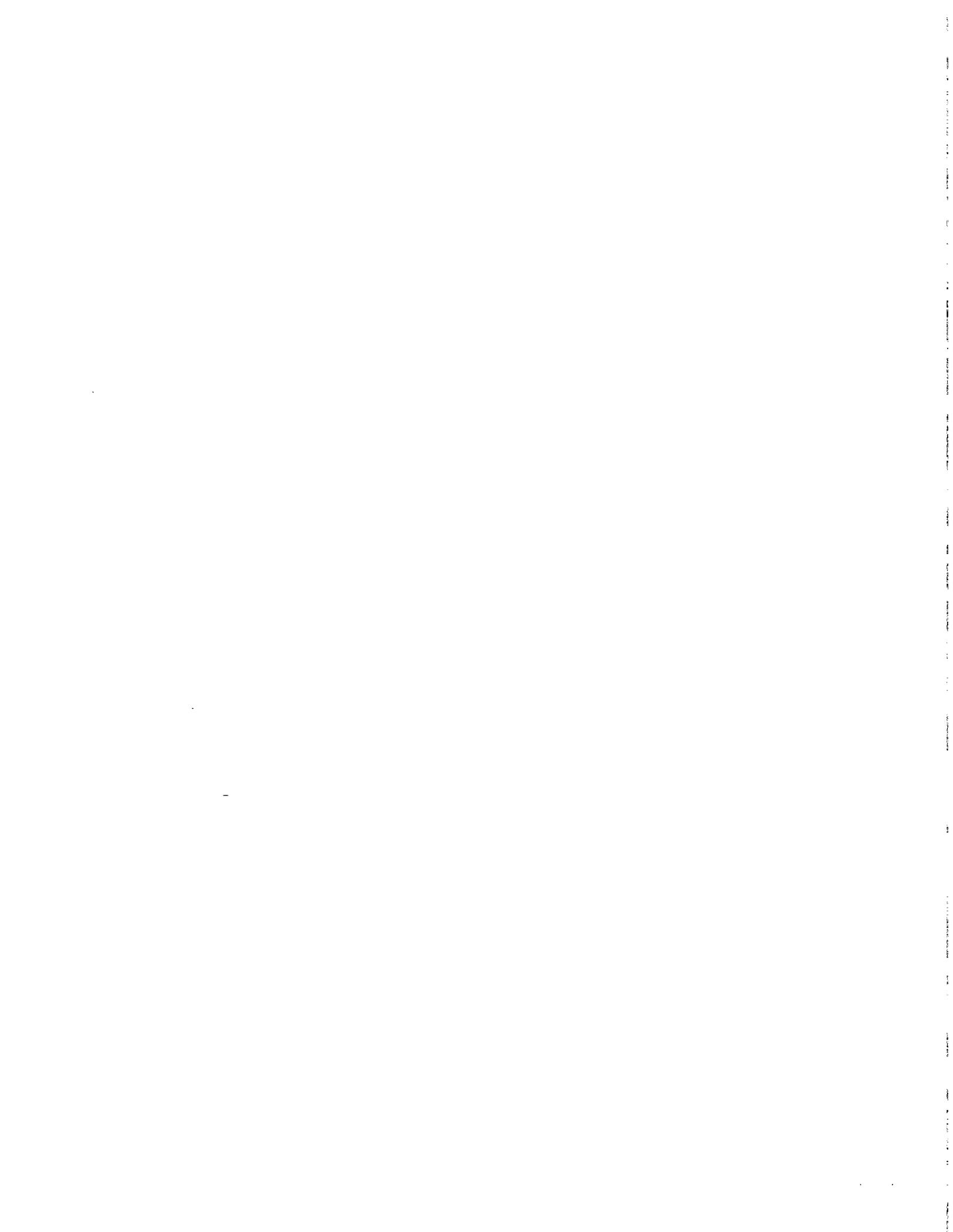
its responsibilities. Thus, HUD's success in implementing its short-term recovery plans plays a critical role in building the necessary bridges to the community for long-term development that will link public housing to the broader community.

Although HUD's plan outlines initiatives to involve the community, including various corporate, community, religious, and academic leaders, we found little progress in this area because these stakeholders are not yet convinced of CHA's effectiveness. This skepticism is compounded by the absence of an executive director or a permanent management team. Without commitment from HUD and its successor management, community leaders will probably remain reluctant to become involved with CHA development.

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In summary, Mr. Chairman, we believe that HUD officials had little choice in taking over CHA. Even if the progress that HUD has made in stabilizing CHA to date continues, HUD will not solve CHA's problems in the near future. Because of the magnitude and persistence of the problems, improvements at the authority will take years to accomplish and short-term gains will be difficult to achieve or sustain. Thus, it is important that HUD officials do not raise expectations of tenants or the public for immediate solutions to difficult and chronic problems. Although HUD has established and already met some short-term goals, preparing a comprehensive long-term recovery plan will be critical to ensure sustained success.

Mr. Chairman, this concludes my statement. We would be pleased to answer any questions that the Subcommittee Members or other Members of Congress may have at this time.



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