B-171630

4-1-75

095034

Comparative Costs Of The Department Of Housing And Urban Development's Sections 8 Leasing And 236 Rental Housing Programs

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

RED-75-350

~~76632~~ 095034

APRIL 1, 1975

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-171630

The Honorable Burt L. Talcott
House of Representatives

Dear Mr. Talcott:

In accordance with your request of June 26, 1974, and subsequent discussions with your office, we studied the comparative costs of providing housing under two subsidy programs--the section 236 rental-housing program and the section 8 leased-housing program--administered by the Department of Housing and Urban Development.

We based our analysis on the comparative costs of the two programs at four counties--Allegheny (Pittsburgh), Pennsylvania; Durham, North Carolina; Peoria, Illinois; and San Bernardino, California. We devised our approach with the assistance of a consultant in the housing economics area. We presented our methodology, assumptions, and observations to a panel of seven consultants in the housing area who agreed that our approach was sound and our observations valid.

Our study of the comparative costs of the two programs resulted in the following observations.

1. Federal subsidies for section 8 existing housing units are less than subsidies for sections 8 or 236 new housing units.

2. When comparing first-year costs for new housing units on a per unit basis:

   --Subsidy costs under the two programs will vary. The subsidy was less for section 8 housing at two of the four counties studied, but the subsidy for 236 housing was less at the other two counties when all families eligible under each program's differing rents and eligibility criteria were housed in new housing units. However, we question whether the results of this cost comparison should be used, because the programs are housing different numbers of families having

different incomes and requiring different numbers of bedrooms. For example, in Peoria almost four times as many families are eligible for section 8 housing as are eligible for section 236 housing.

--Section 8 subsidies were less than section 236 subsidies, when comparing the subsidies incurred in housing the same eligible families under each program's differing rents. However, there are indications that the Department's proposed fair market rents for new section 8 housing units may be too low.

--Increases in proposed fair market rents for new section 8 housing units reduce the cost differences between the two programs for housing the same eligible families. When section 8 fair market rents equal section 236 project rents, Federal subsidies are about the same.

3. The section 8 housing program is more flexible than the 236 program because it can (a) use existing housing, (b) serve a larger number of families and more very low income persons, (c) provide automatic rent adjustments each year to compensate for increases in operating and maintenance costs, and (d) use more forms of construction financing.

Also it should be noted that total Federal subsidies required to house all families eligible for the section 8 program in new housing units are greater than the subsidies required to house all families eligible for the section 236 program in new housing. The difference in total cost can be attributed, in part, to the programs' differing eligibility criteria which result in more families' being eligible to participate in the section 8 program.

We briefed your office on the results of our study on March 17, 1975. At that time, your office asked that we give you copies of the charts and related material used in our briefing for use during the Department's appropriation hearings scheduled in April 1975. Accordingly, we are including copies of the documents used in the briefing--the charts and a brief explanation of the charts (see apps. I and II)--which outline our study methodology and the programs' comparative costs under several assumptions. We are also including additional information on renter households (see app. III) and elderly households (see app. IV) for the four counties included in our study, which your office requested at the briefing.

C2 +R2 11305

As you know, the Chairman of the Subcommittee on HUD-Independent Agencies, House Committee on Appropriations, made an identical request for a study of the comparative costs of the two programs. Accordingly, we are sending copies of the enclosed material today to the Subcommittee.

We did not give the Department an opportunity to formally comment on the matters discussed in the study. However, as your office instructed, we briefed Department officials on the results of our work, and we evaluated and considered in our study the comments Department officials made at that briefing. However, Department officials said that the complex subject matter of the study would require a detailed analysis of the methodology we used and assumptions we made before they could express an opinion on the validity of our observations.

We do not plan to distribute the results of our study further unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

EXPLANATION OF BRIEFING CHARTS

CHART 1--CONGRESSIONAL REQUESTS

Congressman Burt L. Talcott and the Chairman of the Subcommittee on HUD-Independent Agencies, House Committee on Appropriations, asked GAO to study the comparative costs of the sections 8 and 236 housing programs of the Department of Housing and Urban Development (HUD).

HUD had compared the total annual subsidies of two of its subsidized housing programs--sections 236 and revised 23--and had concluded that the revised 23 program was not more expensive than the section 236 program. The Congressional Research Service, however, after analyzing HUD's study concluded that the revised section 23 program was more expensive. This difference of views led to the request for GAO's study.

Section 236, which was added to the National Housing Act (12 U.S.C. 1715z-1) by section 201 of the Housing and Urban Development Act of 1968, authorized a program under which housing units would be provided to low- and moderate-income families. The Housing and Urban Development Act of 1965 added to the United States Housing Act of 1937, a section 23 (42 U.S.C. 1421b) which provided for leasing privately owned housing.

Because enactment of the Housing and Community Development Act of 1974 established a new, successor program to the section 23 program--the section 8 program--we agreed to compare estimated costs of the section 8 program and of the section 236 program as it existed before the Housing and Community Development Act of 1974 was enacted.

The charts discussed in this appendix refer to the briefing charts contained in appendix II.

CHART 2--OBSERVATIONS

1. Federal subsidies for section 8 existing units are less than subsidies for sections 8 or 236 new housing units.

2. When comparing first-year costs for new housing units on a per unit basis:

   --Subsidy costs under the two programs will vary. The subsidy was less for section 8 housing at two of the four counties studied, but the subsidy for

236 housing was less at the other two counties when all families eligible under each program's differing rents and eligibility criteria were housed in new housing units. However, we question whether the results of this cost comparison should be used, because the programs are housing different numbers of families having different incomes and requiring different numbers of bedrooms. For example, in Peoria, Illinois, almost four times as many families are eligible for section 8 housing as are eligible for section 236 housing.

--Section 8 subsidies were less than section 236 subsidies, when comparing the subsidies incurred in housing the same eligible families under each program's differing rents. However, there are indications that HUD's proposed fair market rents for new section 8 housing units may be too low.

--Increases in proposed fair market rents for new section 8 housing units reduce the cost differences between the two programs for housing the same eligible families. When section 8 fair market rents equal section 236 project rents, Federal subsidies are about the same.

3. The section 8 housing program is more flexible than the section 236 program because it can (a) use existing housing, (b) serve a larger number of families and more very low income persons, (c) provide annual automatic rent adjustments each year to compensate for increases in operating and maintenance costs, and (d) use more forms of construction financing.

CHART 3--PROBLEMS WITH HUD COST COMPARISON

With respect to HUD's cost comparison of the sections 236 and revised 23 programs, it should be noted that HUD used a single figure for family size and two income figures to determine costs for the two programs. HUD's figures could accurately represent the actual mean family size and income levels but still result in inaccurate cost figures because different distributions (or mixes) of incomes and/or family sizes could have the same means but produce considerably different cost figures. GAO's analysis showed that both programs' costs were extremely sensitive to the mixes of family sizes and incomes.

Further, HUD's cost calculations were based on a single gross rent figure. The costs of building, operating, and maintaining rental units vary widely throughout the Nation. This wide cost variation is reflected in greatly different levels of gross rents in different parts of the Nation. Again, HUD's gross rent figure could accurately estimate the national mean rent, but because no one knows where the units will actually be built--North or South, rural or urban, city or suburban--costs of housing programs based on a single mean figure could be inaccurate.

We recognize that information about the locations of the units to be built under the programs must be obtained before an accurate nationwide cost estimate can be made. And because such information is currently unobtainable, we computed cost estimates for four different areas of the Nation, to illustrate the degree to which costs will vary.

CHART 4--GAO APPROACH

GAO:

1. Selected four counties to represent different parts of the Nation.

2. Determined eligible families, by income groups and family sizes, for each location.

3. Identified program characteristics affecting costs.

4. Developed subsidy cost formulas for each program on the basis of the identified program characteristics.

5. Made assumptions and tested the sensitivity of the assumptions.

6. Computed, using various assumptions, average first-year unit costs to house those eligible in each location.

7. Estimated indirect costs, including administrative and foreclosure costs and taxes foregone.

8. Devised its approach with the assistance of a consultant in the housing economics area. GAO presented its methodology, assumptions, and observations to a panel of seven consultants expert in the housing area, and they agreed that GAO's approach was sound and its observations valid.

CHART 5--FOUR COUNTIES SELECTED

GAO selected four counties--Allegheny (Pittsburgh), Pennsylvania; Durham, North Carolina; Peoria; and San Bernardino, California--to represent (1) different parts of the Nation and (2) locations where section 236 projects were constructed. These counties represent cities in the East, South, Midwest, and West.

CHART 6--TOTAL NUMBER OF RENTER HOUSEHOLDS IN PEORIA

Before costs can be compared, the eligible population must be identified. HUD's Economic and Market Analysis Division had adjusted 1970 census data for underreported incomes. We projected the total population for the four counties to December 1974.

Although homeowners may be eligible for either program, we considered only renters in our cost study. We believe, and HUD concurs, that it is unlikely that many homeowners will choose to leave their homes to live in housing projects.

We now had the number of total renter households, by household sizes and income groups, in each of the four counties as of December 1974. We converted the data to the number of households by income groups and the number of bedrooms required. The information for Peoria's 21,011 renter households is shown by briefing chart 6. (See p. 19.)

CHART 7--ELIGIBILITY CRITERIA

The population data was now in a workable format. Our next step was to determine what portion of the renter population in each of the four counties was eligible for each program.

The Housing and Community Development Act of 1974 established two eligibility criteria for section 8 housing:

--The program is to serve only lower income families (families whose incomes do not exceed 80 percent of the area median income).

--30 percent of the units must be initially occupied by very low income families (families whose incomes do not exceed 50 percent of the area median income).

Because HUD had not finalized, at the time of our fieldwork, procedures for adjusting area median income by different family sizes--one of the elements in determining eligibility--we devised our own method. Under this method families were considered eligible if 25 percent of their monthly incomes were less than HUD's proposed section 8 fair market rents. The Congress has recognized that families should not be required to pay more than 25 percent of their monthly incomes for standard, modest housing provided under Federal programs.

HUD later published procedures for adjusting median income. We compared the results using HUD's method and our method, and there was no major difference.

We determined the number of families eligible for section 236 housing in each of the four counties by applying the eligibility criteria established primarily by program legislation. The eligibility criteria are:

1. During initial occupancy only those with incomes of less than 135 percent of the local low-rent public housing income limits are eligible.

2. No more than 20 percent (40 percent in exceptional cases) of the units may be occupied by families which require rent supplements to assist them in meeting the basic rents. (Defined on p. 6.)

3. During initial occupancy all families to be eligible must have enough income to pay 30 percent of the basic rent.

CHART 8--SECTION 8 ELIGIBLE RENTER HOUSEHOLDS IN PEORIA

Briefing chart 8 (see p. 21) shows the 14,720 renter households eligible for section 8 housing in Peoria by income groups and required number of bedrooms.

CHART 9--SECTION 236 ELIGIBLE RENTER HOUSEHOLDS IN PEORIA

Briefing chart 9 (see p. 22) shows the 3,714 renter households eligible for section 236 housing in Peoria by income groups and required number of bedrooms. Briefing charts 8 and 9 show that almost four times as many households are eligible for section 8 housing in Peoria as are eligible for section 236 housing. Also, all the lowest

income families are eligible for section 8 housing but not all are eligible for section 236 housing.

CHART 10--PROGRAM CHARACTERISTICS

Section 236 housing program

Under the section 236 program HUD is authorized to insure privately financed mortgage loans for constructing or substantially rehabilitating multifamily housing projects and to pay, on behalf of the mortgagors, the mortgage insurance premiums and the interest on the mortgage loans over 1 percent. Because HUD makes these payments--called interest reduction payments--it establishes a basic monthly rent for each housing unit that is lower than would apply if the project received no Federal assistance. Basic rent is the rent necessary to recover housing operating cost plus construction cost financed under a mortgage having an interest rate of 1 percent.

HUD is also authorized to subsidize those families which cannot pay the basic rents by paying the difference between the basic rents and the rents the families can pay. This subsidy is called rent supplement.

Section 8 housing program

Section 8 of the Housing and Community Development Act of 1974 authorized a program whereby HUD would make assistance payments to public housing agencies and private owners to provide existing, newly constructed, or substantially rehabilitated single family and multifamily housing for lower and very low income families. The construction or substantial rehabilitation of housing units is eligible for financing with mortgages insured under the National Housing Act. Other eligible financing includes conventional loans, tax-exempt bonds, and State-backed loans. Under the program, HUD will provide rent subsidies to the housing unit owners. The subsidies will be based on fair market rents for comparable standard housing units as established by a HUD survey of the local housing market area.

CHART 11--SUBSIDY COST FORMULAS

We classified the costs incurred by the Federal Government in operating the sections 8 and 236 housing programs into two categories. Costs HUD incurred directly in subsidizing tenant rents, mortgage interest, and insurance costs were classified as subsidy costs. All

other costs--administrative and foreclosure costs and taxes foregone--were classified as indirect costs. To compute the costs of housing eligible families under each program, we developed formulas based on (1) the 1974 section 8 legislative provisions and (2) internal HUD instructions for section 236 housing.

Section 8 housing

The formula for determining the Federal subsidy cost of the section 8 program is shown on briefing chart 11. (See p. 24.) The subsidy is basically the difference between the fair market rent for standard, modest housing and some percentage of family income. The rent charged by the owner of section 8 housing must be within limits established by a HUD survey of fair market rents in each county in the Nation. The percentage of income that must be paid by the family toward rental of the unit will range from 15 to 25 percent, depending upon the family's income and size. There is no subsidy when the fair market rent for the unit is less than 25 percent of a family's income. By considering the fair market rents HUD proposed and incomes and bedroom-number needs of eligible families, we estimated subsidy costs for housing all eligible families in section 8 housing in the four counties as of December 1974.

Section 236 housing

The formula for determining the Federal subsidy for the section 236 program, shown on briefing chart 11 (see p. 24), consists of two elements: a mortgage interest and insurance subsidy and a rent supplement subsidy. We obtained the historical costs for existing section 236 projects in each of the four counties and updated the costs to determine the cost to construct and operate new section 236 housing for all eligible families as of December 1974.

We computed the monthly market and basic rents for new units, by bedroom number (efficiency, one bedroom, etc.) using HUD's section 236 program rent formulas.

We based monthly market rents, according to the rent formula, on (1) the mortgage amount necessary to finance construction at the current market interest rate, (2) operating costs, and (3) mortgage insurance premiums.

Monthly basic rents were based on (1) the mortgage amount necessary to finance construction at a 1-percent interest rate and (2) operating costs. We based operating costs on the average ratio of total expenses, taxes, and reserves to total project replacement costs from the

existing section 236 projects. We also used average ratios of the percent of equity invested and occupancy rates from existing projects in computing operating costs of new units.

We computed the first-year section 236 subsidy--mortgage interest and insurance subsidies--by determining the difference between the annual market rents and basic rents and added the sum of the rent supplements--the net amount that basic rents exceeded 25 percent of family income--if any.

CHART 12--OTHER ASSUMPTIONS

In addition to the assumptions mentioned previously--only renters were included in our cost comparisons, the entire eligible population in the four counties were housed as of December 1974, and the costs represented the first-year new housing costs only--we made other assumptions, including:

--Multifamily walkup-type housing. In computing subsidy costs we used this type of construction because it can be used in both programs and is more likely to be used for section 8 scattered-site construction than elevator-type housing.

--Mortgage insurance financing. We chose to use this means of financing new housing because it is the only type of financing which can be used under the section 236 program; it can also be used under the section 8 program.

--Limited-dividend sponsor. Both programs permit limited-dividend sponsors to own new housing. In addition, a major part of existing section 236 housing is owned by limited-dividend sponsors, and HUD anticipates that most section 8 sponsors will be profit motivated.

CHART 13--INDIRECT COSTS

All costs other than direct subsidy costs were classified as indirect costs. These consisted of administrative and foreclosure costs and taxes foregone. The cost differences between the estimated comparative administrative and foreclosure costs for each program were small.

With respect to taxes foregone, there were no major tax differences between the two programs, except for the "rollover" and recapture of accelerated depreciation provisions under the section 236 program. The rollover provision states that,

if an owner of a section 236 project sells the project to his tenants and buys another section 236 project, the capital gains tax on the first project need not be paid until the second project is sold. This is equivalent to an interest-free loan of the amount of capital gains tax for the life of the second project.

The rollover provision could greatly increase the taxes foregone for the section 236 housing program. However, rollover costs should not be included in any cost comparison of the two programs. We believe--and our consultants agree--that it is unlikely that owners of section 236 projects will meet the conditions of the provision, especially since HUD has determined that new section 236 housing will be provided only in rare situations.

Another tax difference between the two programs is the holding periods required to avoid paying the increased taxes that normally would have accrued under conventional depreciation methods. Section 8 housing is required to be held 16-2/3 years to avoid recapture of accelerated depreciation, but section 236 housing is required to be held only 10 years.

We did not consider the above difference to be important, however, because:

--The law providing favorable recapture of accelerated depreciation for section 236 housing expires January 1, 1976. After that date there will be no differences in the recapture provisions of each program.

--It is questionable whether any new section 8 projects will be completed and leased before the favorable provision expires.

With the exclusion of taxes foregone, there are no major differences in the indirect costs of the two programs. We therefore excluded indirect costs in making our cost comparisons and based our observations on the Federal subsidies incurred under each of the programs.

CHART 14--SECTION 8 EXISTING UNITS COST LESS THAN NEW UNITS, PEORIA

One difference between the sections 8 and 236 programs is that the section 8 program provides assistance to eligible families housed in existing housing. (Both programs provide assistance for housing eligible families in newly constructed

or substantially rehabilitated housing. HUD's proposed fair market rents for substantially rehabilitated housing are the same as for newly constructed units.) The monthly fair market rents HUD proposed for section 8 existing housing are much less than the rents it proposed for section 8 newly constructed or substantially rehabilitated housing units. For example, the rents HUD proposed for two-bedroom, nonelevator or walkup units in the four counties were:

	Rents for existing units	Rents for new units
Peoria	$170	$214
Durham	169	177
Pittsburgh	149	232
San Bernardino	156	198

Although the monthly market rents calculated for the section 236 projects varied, depending on the various assumptions used, the calculated rents were always much higher than the section 8 rents for existing units. Therefore, when existing section 8 units are used to house eligible families, the Federal subsidies will always be less than the subsidies for housing the same families in new units constructed under either the section 8 or the section 236 program.

Briefing chart 14 (see p. 27) shows the difference in the annual subsidy for each unit for section 8 existing and newly constructed units in Peoria.

CHART 15--NEW UNITS - DIFFERENT ELIGIBLES AND DIFFERENT RENTS - NO CONCLUSION

When the subsidy incurred in housing families eligible under section 8 criteria, using section 8 proposed fair market rents for newly constructed units, is compared with the subsidy incurred in housing families eligible under section 236 criteria, using section 236 calculated market rents, the results are mixed. The annual subsidy for each unit is less for section 8 housing in Peoria and San Bernardino but less for section 236 housing in Durham and Pittsburgh. Briefing chart 15 (see p. 28) shows the subsidy cost at each location.

The differences are due to complex interrelationships among several factors including differences in:

--The number, incomes, and bedroom requirements of families eligible under each program.

--The housing markets in the four counties, which result in differing fair market rents and construction costs.

We question whether the results of a cost comparison using each program's differing legislative and administrative eligibility requirements should be used. We therefore made the comparisons hereinafter discussed.

CHART 16--NEW UNITS - SAME ELIGIBLES AND DIFFERENT RENTS - SECTION 8 COSTS LESS

As briefing charts 8 and 9 (see pp. 21 and 22) show, the programs serve vastly different eligible families. We therefore identified those families which were eligible for section 8 housing and computed the subsidy costs for housing these families under each program. We used the fair market rents HUD proposed for section 8 housing in computing section 8 costs and used section 236 rents we calculated in computing section 236 costs. As briefing chart 16 (see p. 29) shows, section 8 per unit costs were less at all four counties.

CHART 17--EFFECTS OF FAIR MARKET RENTS ON SUBSIDY--TWO-BEDROOM UNIT, PEORIA

It is important to recognize, however, that section 8 housing costs are extremely sensitive to changes in the HUD-established fair market rents. Cost differences between the two programs for housing the same eligible families are reduced as the proposed fair market rents for new section 8 units are increased. Briefing chart 17 (see p. 30) shows the effect that varying fair market rents have on the section 8 subsidy.

CHART 18--INDICATIONS THAT PUBLISHED FAIR MARKET RENTS MAY BE TOO LOW

There are indications that the HUD-proposed section 8 fair market rents may be too low. The proposed section 8 rents were derived from updated 2-year average costs; section 236 rents were derived from actual costs updated to December 1974. The average 2-year costs would be somewhat lower than the actual updated costs because averages tend to lag behind recent inflationary cost increases.

Also, the housing industry's response to HUD's request for comments on the adequacy of the rents it proposed has been that the rents are too low to induce new construction of section 8 housing. Consequently HUD is considering increasing some rents.

CHART 19--NEW UNITS - SAME ELIGIBLES AND SAME RENTS - COST ABOUT THE SAME

If section 8 proposed fair market rents are increased to equal the section 236 rents and if the same eligible families are being housed in new section 8 and section 236 units, then the cost of the per unit Federal subsidy is about the same for each program, as briefing chart 19 (see p. 32) shows. This is true even though the form of the subsidy for each program differs: (1) a rent subsidy for the section 8 program and (2) a rent supplement subsidy and a mortgage interest and insurance subsidy for the section 236 program.

CHART 20--SECTION 8 IS MORE FLEXIBLE THAN SECTION 236

The section 8 housing program has several features which make it more flexible than the section 236 program. The section 8 program:

--Uses existing housing.

--Serves a larger number of families and more very low income persons.

--Automatically adjusts rents each year to compensate for increases in operating and maintenance costs (perhaps thus avoiding some mortgage foreclosures).

--Finances conventionally and by State-backed loans and tax-exempt bonds.

CHART 21--QUESTIONS ON THE SECTION 8 PROGRAM WHICH THE SUBCOMMITTEE MAY WISH TO EXPLORE WITH HUD

1. How has HUD insured that its procedures for establishing section 8 fair market rents will result in rents high enough to induce developers to construct new section 8 housing? Has HUD identified or considered any minimums or "floors" in industry's participation in the program that would cause HUD to increase the established fair market rents?

2. If costs to construct housing under the sections 8 and 236 programs are about the same--and there are indications that these costs would be about the same--why would section 8 rents be lower than section 236 rents when

housing under each program must meet HUD's minimum property standards and when both types of housing are owned and operated by private owners? Would operating costs differ greatly?

3. Because use of existing housing appears to be the less costly alternative for housing lower and very low income families, what steps has HUD taken to maximize the use of existing housing for leasing under the section 8 program?

4. Has HUD developed (or does it plan to develop) any information on the effect extensive use of the section 8 program will have on rents charged by nonfederally subsidized private owners?

5. Because the section 8 subsidy cost is sensitive to the incomes of the families housed, has HUD determined whether it will emphasize housing very low income families (those with incomes no greater than 50 percent of area median) or primarily those families with higher incomes (i.e., incomes near 80 percent of the area median)?

6. It appears the section 8 provisions for automatic and special rental adjustments each year will increase section 8 future costs more rapidly than rental adjustments allowed for section 236 housing will increase section 236 future costs. Has HUD determined for these two programs the long-term cost differences to the Federal Government?

7. Does HUD plan to evaluate the effectiveness of the section 8 program in achieving legislative and program objectives? And, if so, of what will such an evaluation system consist?

APPENDIX II
CHART 1

BRIEFING CHARTS

YOUR REQUEST

COMPARISON OF TRUE COST OF SECTIONS 8 AND 236

APPENDIX II
CHART 1

APPENDIX II
CHART 2

OBSERVATIONS

- SECTION 8 EXISTING UNITS COST LESS THAN SECTIONS 8 OR 236 NEW UNITS
- COMPARING NEW UNITS ON A PER UNIT BASIS
  - DIFFERENT ELIGIBLES AND DIFFERENT RENTS - NO CONCLUSION
  - SAME ELIGIBLES AND DIFFERENT RENTS - SECTION 8 COSTS LESS
  - SAME ELIGIBLES AND SAME RENTS - COST ABOUT THE SAME
- SECTION 8 MORE FLEXIBLE

APPENDIX II
CHART 2

APPENDIX II
CHART 3

PROBLEMS WITH HUD COST COMPARISON

- SINGLE HYPOTHETICAL LOCATION
- SINGLE MEAN INCOME AND FAMILY SIZE
- SINGLE RENT FIGURE

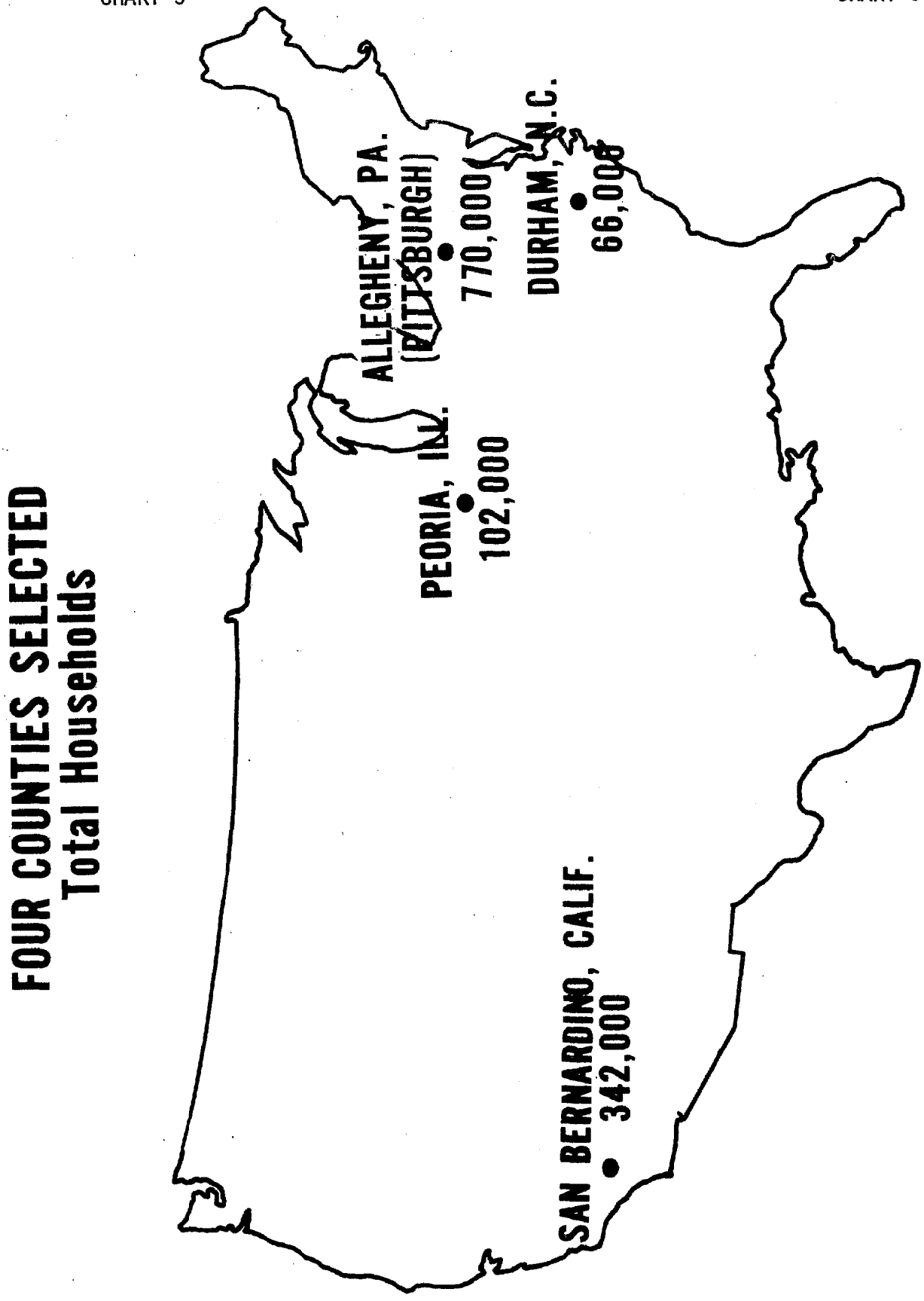
APPENDIX II
CHART 4

GAO APPROACH

- SELECTED SAMPLE POPULATION
- DETERMINED TOTAL ELIGIBLES
- REVIEWED PROGRAM CHARACTERISTICS
- DEVELOPED SUBSIDY COST FORMULAS
- ESTABLISHED ASSUMPTIONS
- COMPUTED AVERAGE FIRST YEAR UNIT COSTS
- EVALUATED INDIRECT COSTS
- UTILIZED CONSULTANTS

APPENDIX II
CHART 4

APPENDIX II
CHART 5



APPENDIX II
CHART 6

TOTAL NUMBER OF RENTER HOUSEHOLDS IN PEORIA

BEDROOM SIZE

INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	1356	1356	534	153	49	3448
2000-2999	549	549	473	119	45	1735
3000-4999	822	822	926	208	75	2853
5000-7499	884	884	1448	295	129	3640
7500-9999	745	745	1650	456	195	3791
10000-14999	671	671	1860	558	185	3945
15000-19999	187	187	448	158	55	1035
20000-*****	119	119	234	71	21	564
TOTALS	5333	5333	7573	2018	754	21011

APPENDIX II
CHART 6

ELIGIBILITY CRITERIA

	SECTION 8	SECTION 236
UPPER INCOME LIMITS	INCOME LESS THAN 80% OF AREA MEDIAN.	INCOME NOT MORE THAN 135% OF PUBLIC HOUSING LIMITATION.
LOWER INCOME LIMITS	NONE	MUST BE ABLE TO PAY AT LEAST 30% OF BASIC RENT (RENT BASED ON 1% MORTGAGE).
OTHER LIMITS	30% OF UNITS MUST BE OCCUPIED BY TENANTS WITH INCOMES NO GREATER THAN 50% OF AREA MEDIAN.	

APPENDIX II
CHART 7

SECTION 8 ELIGIBLE RENTER HOUSEHOLDS IN PEORIA

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	1356	1356	534	153	49	3448
2000 - 2999	549	549	473	119	45	1735
3000- 4999	822	822	926	208	75	2853
5000- 7499	884	884	1448	295	129	3640
7500- 9999	0	0	1650	456	195	2301
10000-14999	0	0	0	558	185	743
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	3611	3611	5031	1789	678	14720

APPENDIX II
CHART 8

SECTION 236 ELIGIBLE RENTER HOUSEHOLDS IN PEORIA

BEDROOM SIZE

INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	0	0	0	0	0	0
2000-2999	54	54	46	0	0	154
3000-4999	81	81	91	20	7	280
5000-7499	884	87	142	29	13	1155
7500-9999	0	0	1650	456	19	2125
10000-14999	0	0	0	0	0	0
15000-19999	0	0	0	0	0	0
20000-****	0	0	0	0	0	0
TOTALS	1019	222	1929	505	39	3714

APPENDIX II
CHART 9

APPENDIX II
CHART 10

PROGRAM CHARACTERISTICS

	SECTION 8	SECTION 236
● TYPE OF HOUSING	EXISTING NEW REHAB	NEW REHAB
● TYPE OF SUBSIDY	RENT SUBSIDY	INTEREST SUBSIDY RENT SUPPLEMENT
● TYPE OF PROJECTS	SINGLE MULTIFAMILY	MULTIFAMILY
● SPONSORS	PRIVATE PUBLIC	PRIVATE
● FINANCING	MORTGAGE INSURANCE CONVENTIONAL TAX EXEMPT BONDS STATE BACKED LOANS	MORTGAGE INSURANCE

APPENDIX II
CHART 10

SUBSIDY COST FORMULAS

- **SECTION 8**
  SUBSIDY=FAIR MARKET RENT – 15 TO 25% OF TENANT INCOME

- **SECTION 236**
  SUBSIDY=INTEREST SUBSIDY + RENT SUPPLEMENT SUBSIDY

  INTEREST SUBSIDY=(PRINCIPAL AND INTEREST AT MARKET INTEREST + INSURANCE) –PRINCIPAL AND INTEREST AT 1%

  RENT SUPPLEMENT SUBSIDY=BASIC RENT–25% TENANT INCOME

APPENDIX II
CHART 11

APPENDIX II
CHART 12

OTHER ASSUMPTIONS

- MULTIFAMILY / WALKUP UNITS
- MORTGAGE INSURANCE FINANCING
- LIMITED DIVIDEND SPONSORS

APPENDIX II
CHART 12

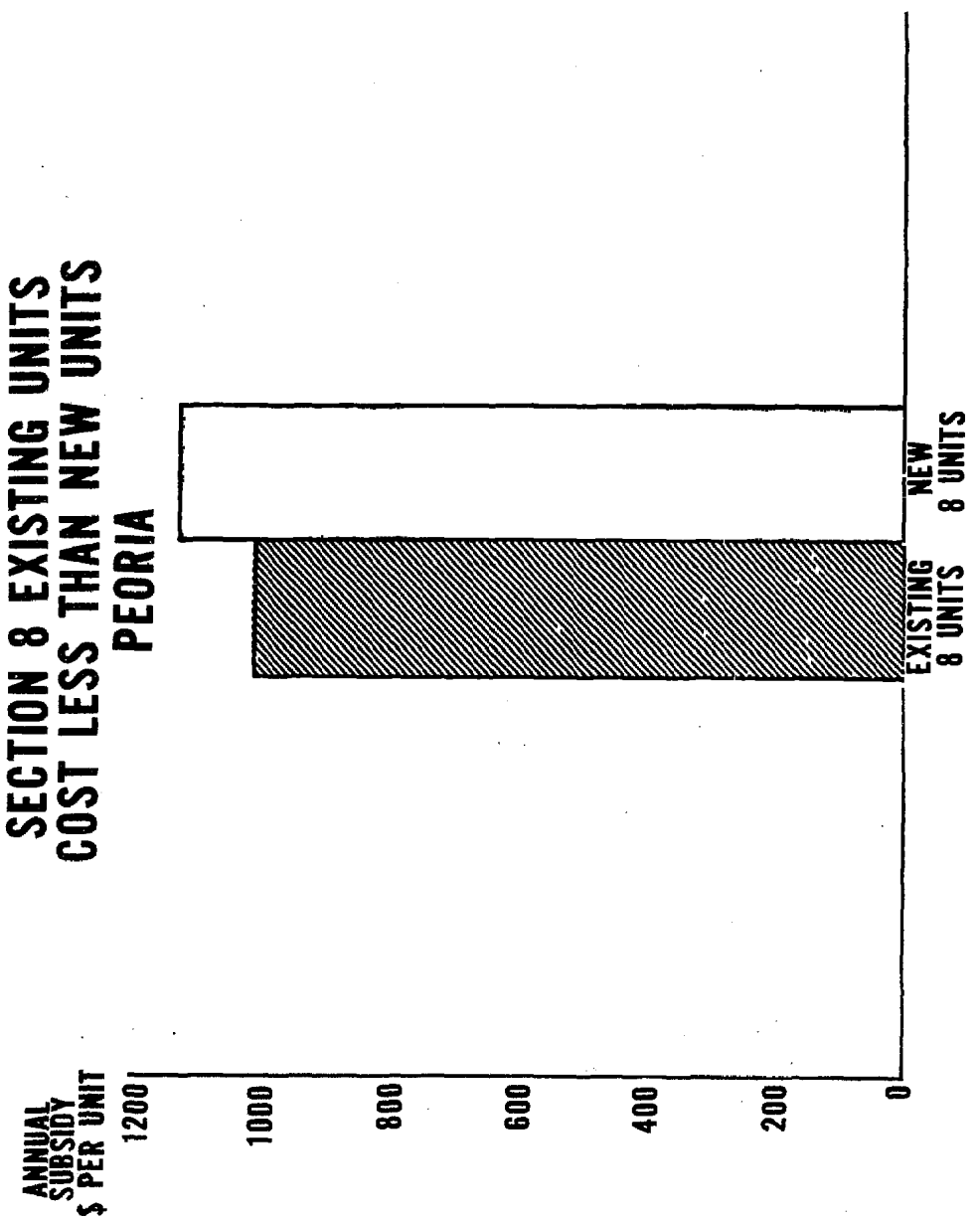
APPENDIX II
CHART 13

INDIRECT COSTS

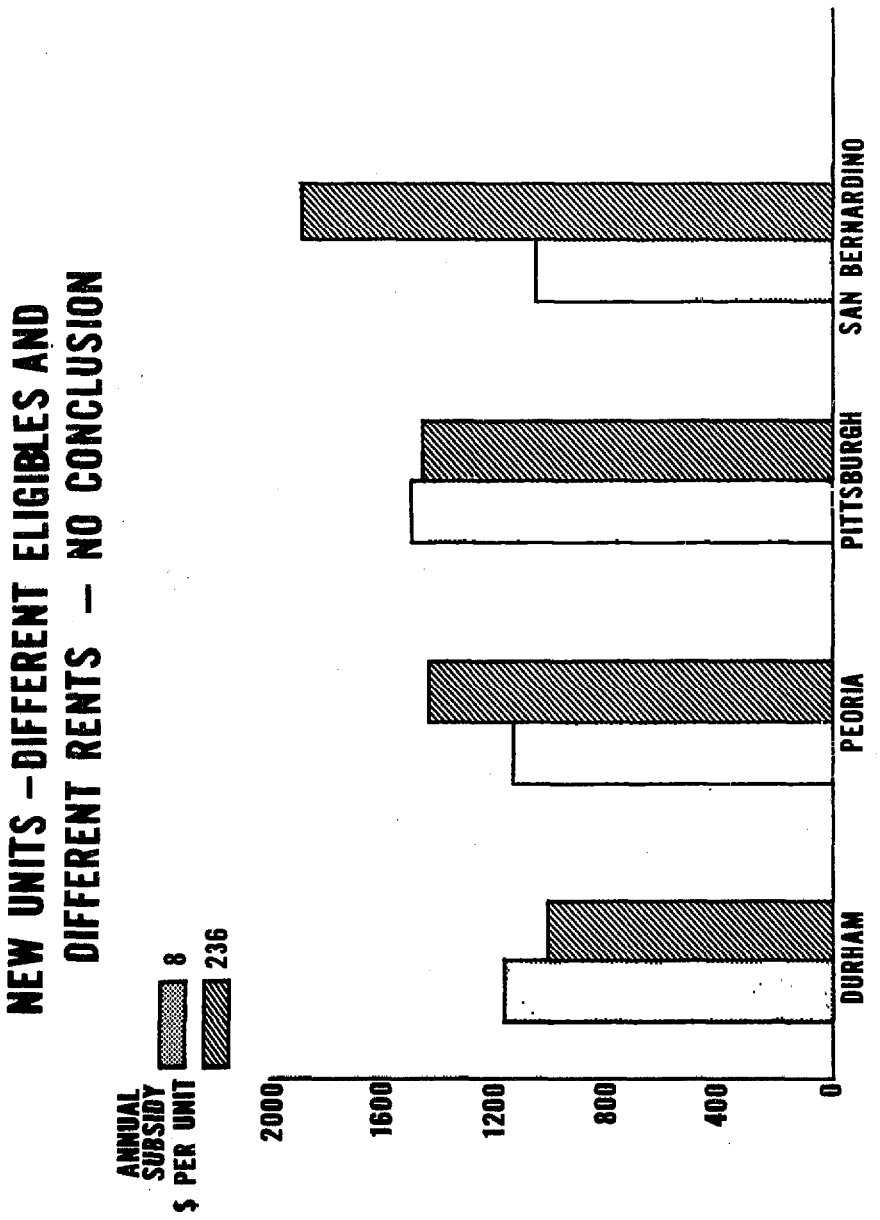
- FORECLOSURE
- ADMINISTRATIVE
- TAXES FOREGONE

APPENDIX II
CHART 13

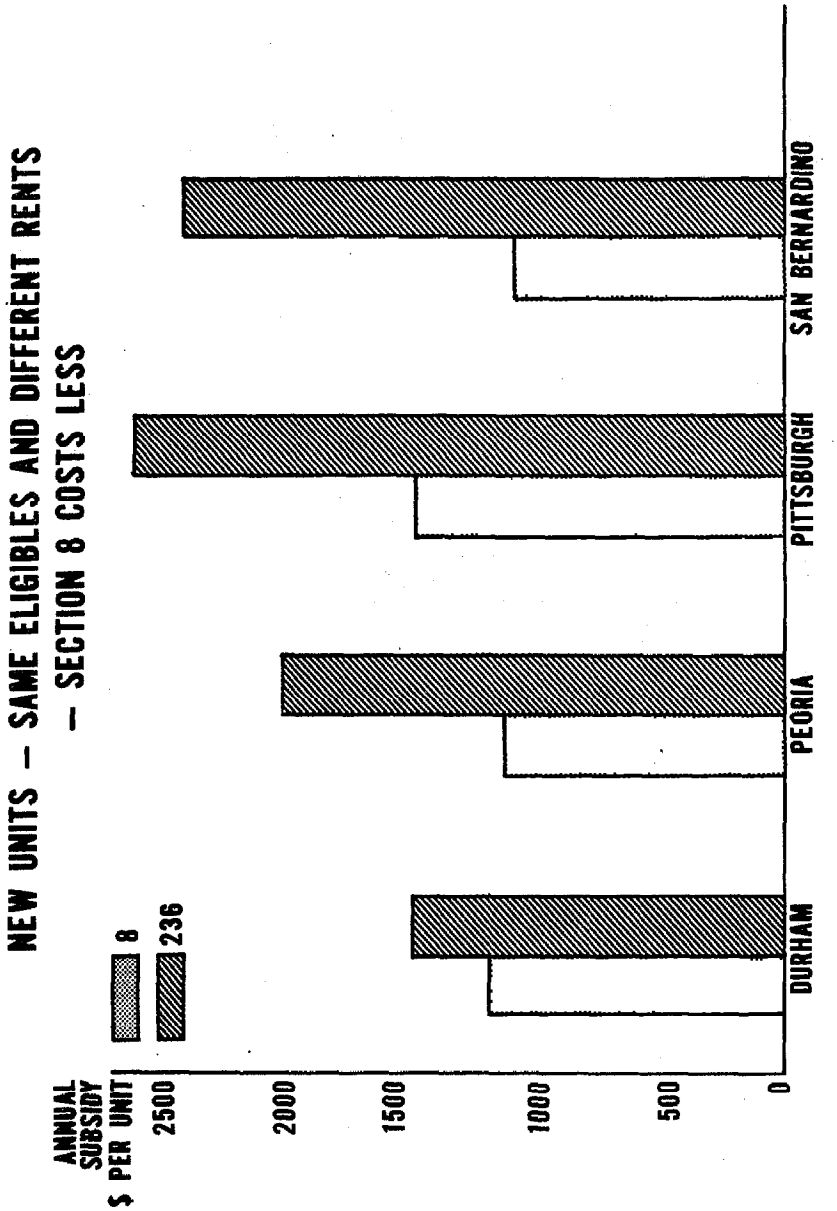
APPENDIX II
CHART 14



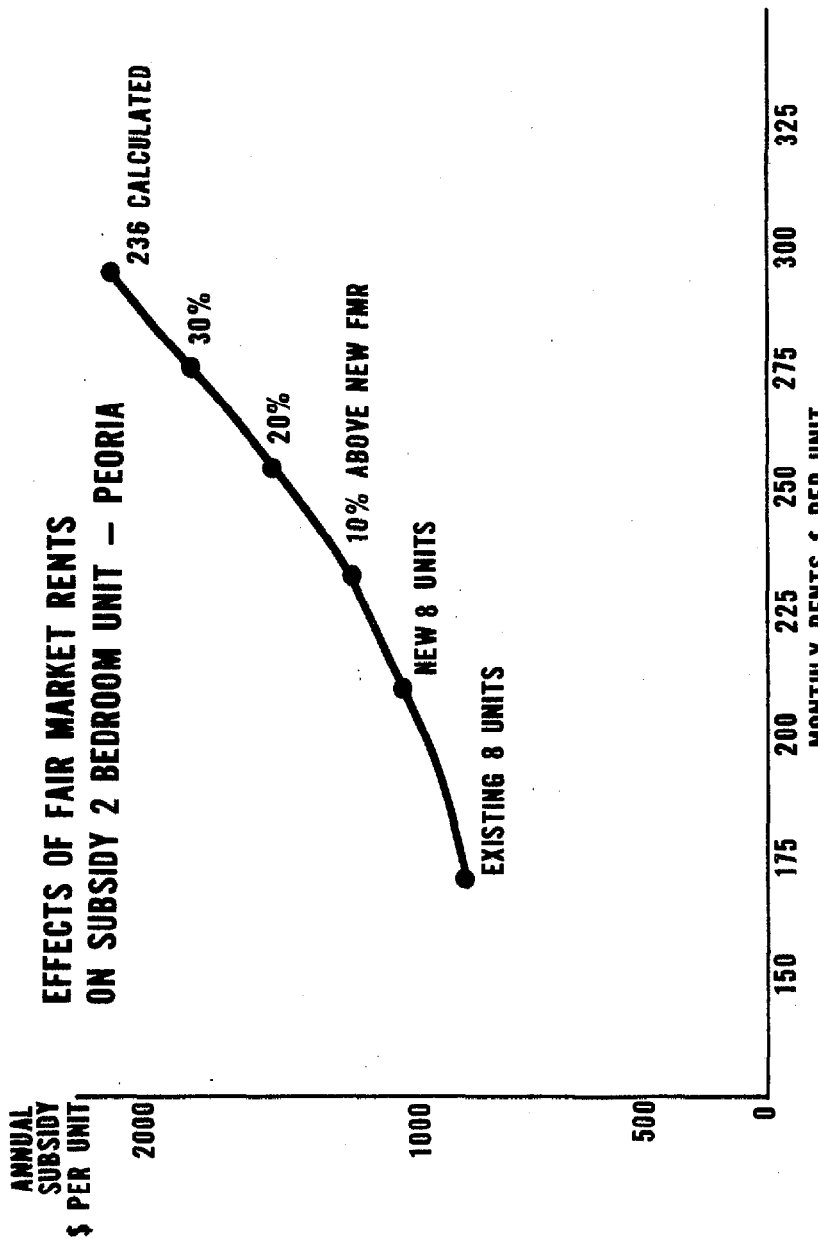
APPENDIX II
CHART 15



APPENDIX II
CHART 16



APPENDIX II
CHART 17

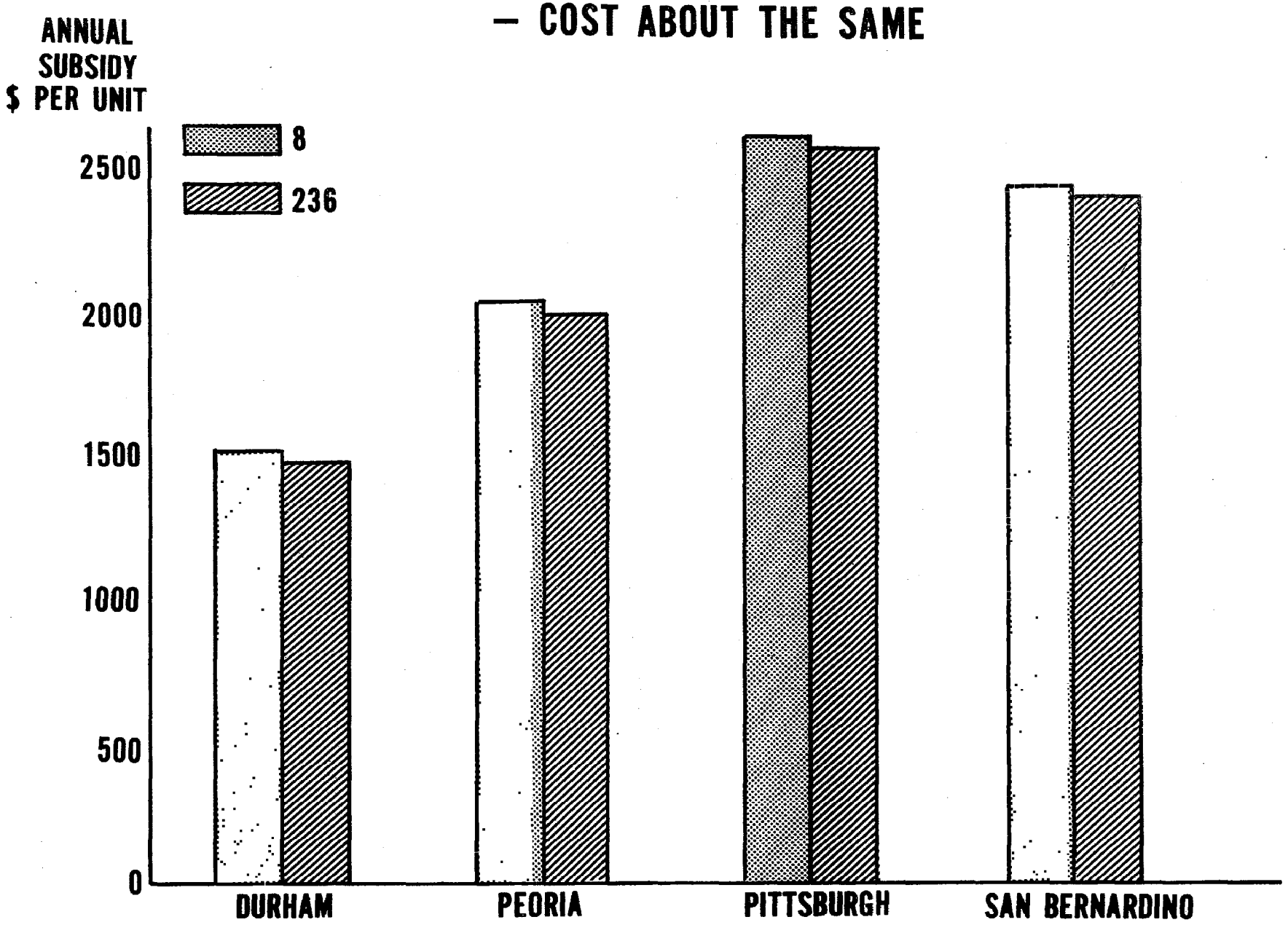


INDICATIONS THAT PUBLISHED FAIR MARKET RENTS MAY BE TOO LOW:

1. INDUSTRY SAYS THEY ARE TOO LOW
2. HUD IS CURRENTLY CONSIDERING AN INCREASE
3. SECTION 8 RENTS WERE DERIVED USING UPDATED 2 YR. AVERAGE COSTS WHILE SECTION 236 RENTS WERE DERIVED FROM ACTUAL COSTS UPDATED TO DECEMBER 1974

APPENDIX II
CHART 18

NEW UNITS — SAME ELIGIBLES AND SAME RENTS — COST ABOUT THE SAME



APPENDIX II
CHART 19

APPENDIX II
CHART 20

SECTION 8 IS MORE FLEXIBLE THAN SECTION 236

- MORE TYPES OF HOUSING
- MORE VERY LOW INCOME FAMILIES ARE ELIGIBLE
- EASIER RENT ADJUSTMENTS
- MORE TYPES OF FINANCING

APPENDIX II
CHART 20

APPENDIX II
CHART 21

QUESTIONS ON THE SECTION 8 PROGRAM WHICH THE SUBCOMMITTEE MAY WISH TO EXPLORE WITH HUD

- REASONABLENESS OF FAIR MARKET RENTS?
- DIFFERENCES IN OPERATING COSTS?
- ALLOCATION MIX?
- MARKET EFFECTS ?
- INCOMES OF FAMILIES HOUSED ?
- LONG TERM COSTS?
- EVALUATION SYSTEM ?

APPENDIX II
CHART 21

STATISTICS ON RENTER HOUSEHOLDS IN DURHAM, PITTSBURGH, AND SAN BERNARDINO

TOTAL NUMBER OF RENTER HOUSEHOLDS IN DURHAM

	BEDROOM SIZE					
INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	1022	1022	781	250	108	3183
2000- 2999	459	459	636	159	66	1779
3000- 4999	859	859	1353	486	225	3782
5000- 7499	764	764	1905	500	230	4163
7500- 9999	485	485	1527	420	175	3092
10000-14999	410	410	1570	355	122	2867
15000-19999	113	113	309	109	40	684
20000-*****	52	52	151	21	7	283
TOTALS	4164	4164	8232	2300	973	19833

APPENDIX III
CHART 1

APPENDIX III
CHART 2

SECTION 8 ELIGIBLE RENTER HOUSEHOLDS IN DURHAM

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	1022	1022	781	250	108	3183
2000- 2999	459	459	636	159	66	1779
3000- 4999	859	859	1353	486	225	3782
5000- 7499	0	764	1905	500	230	3399
7500- 9999	0	0	0	420	175	595
10000-14999	0	0	0	0	122	122
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	2340	3104	4675	1815	926	12860

APPENDIX III
CHART 2

SECTION 236 ELIGIBLE RENTER HOUSEHOLDS IN DURHAM

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	0	0	0	0	0	0
2000- 2999	90	90	124	31	13	348
3000- 4999	168	168	264	95	44	739
5000- 7499	764	764	1905	500	45	3978
7500- 9999	0	0	0	420	175	595
10000-14999	0	0	0	0	0	0
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	1022	1022	2293	1046	277	5660

APPENDIX III
CHART 3

APPENDIX III
CHART 4

TOTAL NUMBER OF RENTER HOUSEHOLDS IN PITTSBURGH

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	12067	12067	4586	1092	426	30238
2000- 2999	4795	4795	4203	516	220	14529
3000- 4999	7396	7396	7610	1908	687	24997
5000- 7499	8076	8076	13746	3334	1160	34392
7500- 9999	5568	5568	12944	3178	1071	28329
10000-14999	5606	5606	14288	3299	1099	29898
15000-19999	1693	1693	4289	1058	329	9062
20000-*****	1304	1304	2552	522	182	5864
TOTALS	46505	46505	64218	14907	5174	177309

APPENDIX III
CHART 4

APPENDIX III
CHART 5

SECTION 8 ELIGIBLE RENTER HOUSEHOLDS IN PITTSBURGH

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	12067	12067	4586	1092	426	30238
2000- 2999	4795	4795	4203	516	220	14529
3000- 4999	7396	7396	7610	1908	687	24997
5000- 7499	8076	8076	13746	3334	1160	34392
7500- 9999	0	5568	12944	3178	1071	22761
10000-14999	0	0	0	3299	1099	4398
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	32334	37902	43089	13327	4663	131315

APPENDIX III
CHART 5

APPENDIX III
CHART 6

SECTION 236 ELIGIBLE RENTER HOUSEHOLDS IN PITTSBURGH

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	0	0	0	0	0	0
2000- 2999	77	77	0	0	0	154
3000- 4999	118	118	122	31	16	405
5000- 7499	129	129	220	53	19	550
7500- 9999	0	5568	207	51	17	5843
10000-14999	0	0	0	0	0	0
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	324	5892	549	135	52	6952

APPENDIX III
CHART 6

APPENDIX III
CHART 7

TOTAL NUMBER OF RENTER HOUSEHOLDS IN SAN BERNARDINO

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	3659	3659	2657	636	239	10850
2000- 2999	2379	2379	2030	352	81	7221
3000- 4999	2942	2942	4777	1260	513	12434
5000- 7499	2968	2968	7047	2400	839	16222
7500- 9999	1893	1893	6087	1915	684	12472
10000-14999	1886	1886	5989	2253	750	12764
15000-19999	501	501	1754	785	254	3795
20000-*****	270	270	684	760	133	2117
TOTALS	16498	16498	31025	10361	3493	77875

APPENDIX III
CHART 7

APPENDIX III
CHART 8

SECTION 8 ELIGIBLE RENTER HOUSEHOLDS IN SAN BERNARDINO

	BEDROOM SIZE					
INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	3659	3659	2657	636	239	10850
2000- 2999	2379	2379	2030	352	81	7221
3000- 4999	2942	2942	4777	1260	513	12434
5000- 7499	0	2968	7047	2400	839	13254
7500- 9999	0	0	6087	1915	684	8686
10000-14999	0	0	0	0	750	750
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	8980	11948	22598	6563	3106	53195

APPENDIX III
CHART 8

APPENDIX III
CHART 9

SECTION 236 ELIGIBLE RENTER HOUSEHOLDS IN SAN BERNARDINO

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	0	0	0	0	0	0
2000- 2999	100	100	0	0	0	200
3000- 4999	124	124	201	53	22	524
5000- 7499	125	125	296	101	35	682
7500- 9999	0	0	6087	80	29	6196
10000-14999	0	0	0	0	0	0
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	349	349	6584	234	86	7602

APPENDIX III
CHART 9

DATA ON ELDERLY RENTER HOUSEHOLDS FOR THE FOUR COUNTIES STUDIED (note a)

TOTAL NUMBER OF ELDERLY RENTER HOUSEHOLDS IN DURHAM

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	532	532	132	12	8	1216
2000- 2999	204	204	162	6	6	582
3000- 4999	182	182	315	66	32	777
5000- 7499	90	90	241	40	15	476
7500- 9999	65	65	166	38	16	350
10000-14999	19	19	109	39	12	198
15000-19999	15	15	35	23	11	99
20000-*****	12	12	19	0	0	43
TOTALS	1119	1119	1179	224	100	3741

[a]According to HUD, any household with one or more family members 62 years of age or older.

APPENDIX IV
CHART 1

SECTION 8 ELIGIBLE ELDERLY RENTER HOUSEHOLDS IN DURHAM

	BEDROOM SIZE					
INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	532	532	132	12	8	1216
2000- 2999	204	204	162	6	6	582
3000- 4999	182	182	315	66	32	777
5000- 7499	0	90	241	40	15	386
7500- 9999	0	0	0	38	16	54
10000-14999	0	0	0	0	12	12
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	918	1008	850	162	89	3027

APPENDIX IV
CHART 2

TOTAL NUMBER OF ELDERLY RENTER HOUSEHOLDS IN PEORIA

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	805	805	91	12	3	1716
2000- 2999	281	281	112	5	0	679
3000- 4999	283	283	150	8	0	724
5000- 7499	176	176	130	0	0	482
7500- 9999	135	135	112	17	8	407
10000-14999	92	92	177	24	9	394
15000-19999	25	25	43	11	5	109
20000-*****	37	37	38	6	2	120
TOTALS	1834	1834	853	83	27	4631

APPENDIX IV
CHART 3

SECTION 8 ELIGIBLE ELDERLY RENTER HOUSEHOLDS IN PEORIA

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	805	805	91	12	3	1716
2000- 2999	281	281	112	5	0	679
3000- 4999	283	283	150	8	0	724
5000- 7499	176	176	130	0	0	482
7500- 9999	0	0	112	17	8	137
10000-14999	0	0	0	24	9	33
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	1545	1545	595	66	20	3771

APPENDIX IV
CHART 4

TOTAL NUMBER OF ELDERLY RENTER HOUSEHOLDS IN PITTSBURGH

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	7509	7509	990	36	15	16059
2000- 2999	2807	2807	1055	22	14	6705
3000- 4999	3112	3112	1977	99	37	8337
5000- 7499	2187	2187	2261	179	60	6874
7500- 9999	1231	1231	1801	281	83	4627
10000-14999	1037	1037	2207	299	127	4707
15000-19999	326	326	813	99	36	1600
20000-*****	425	425	526	109	40	1525
TOTALS	18634	18634	11630	1124	412	50434

APPENDIX IV
CHART 5

SECTION 8 ELIGIBLE ELDERLY RENTER HOUSEHOLDS IN PITTSBURGH

	BEDROOM SIZE					
INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	7509	7509	990	36	15	16059
2000- 2999	2807	2807	1055	22	14	6705
3000- 4999	3112	3112	1977	99	37	8337
5000- 7499	2187	2187	2261	179	60	6874
7500- 9999	0	1231	1801	281	83	3396
10000-14999	0	0	0	299	127	426
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	15615	16846	8084	916	336	41797

APPENDIX IV
CHART 6

TOTAL NUMBER OF ELDERLY RENTER HOUSEHOLDS IN SAN BERNARDINO

INCOME	BEDROOM SIZE 0	1	2	3	4+	TOTALS
$ 0-$1999	1983	1983	238	21	14	4239
2000- 2999	1507	1507	313	18	3	3348
3000- 4999	1075	1075	756	69	17	2992
5000- 7499	540	540	614	78	30	1802
7500- 9999	247	247	399	65	36	994
10000-14999	204	204	426	76	41	951
15000-19999	51	51	188	50	23	363
20000-*****	37	37	86	33	16	209
TOTALS	5644	5644	3020	410	180	14898

APPENDIX IV
CHART 7

APPENDIX IV
CHART 8

SECTION 8 ELIGIBLE ELDERLY HOUSEHOLDS IN SAN BERNARDINO

	BEDROOM SIZE					
INCOME	0	1	2	3	4+	TOTALS
$ 0-$1999	1983	1983	238	21	14	4239
2000- 2999	1507	1507	313	18	3	3348
3000- 4999	1075	1075	756	69	17	2992
5000- 7499	0	540	614	78	30	1262
7500- 9999	0	0	399	65	36	500
10000-14999	0	0	0	0	41	41
15000-19999	0	0	0	0	0	0
20000-*****	0	0	0	0	0	0
TOTALS	4565	5105	2320	251	141	12382

APPENDIX IV
CHART 8

APPENDIX IV
CHART 9