

George
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Serving A Broader Economic Range Of Families In Public Housing Could Reduce Operating Subsidies

The financial condition of some agencies providing housing assistance to low-income families continues to deteriorate despite Federal legislation enacted 5 years ago to counteract this trend.

Providing housing for a broader economic range of families could improve the situation. Unless action is taken, continued financial deterioration and increased dependence on Federal subsidies may result.

No simple solution exists to motivate housing agencies to house a broader range of low-income families instead of the poorest households. Housing poor families in preference to very poor families involves hard choices. Formidable problems of a moral and administrative nature exist.

The Department of Housing and Urban Development should make a firmer commitment to implement the legislation by guiding and monitoring housing agencies more effectively.



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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

The financial condition of some of the Nation's public housing agencies has continued to deteriorate despite legislation enacted 5 years ago to moderate this trend. This report points out the need for the Department of Housing and Urban Development to make a greater commitment to implementing the legislation aimed at improving the financial condition of public housing agencies through its guidance to and monitoring of these agencies.

We made our review to determine whether the Department of Housing and Urban Development implemented the tenant selection provision of the Housing and Community Development Act of 1974 to improve the financial condition of public housing agencies.

We are sending copies of this report to the Director, Office of Management and Budget, and the Secretary of Housing and Urban Development.

A handwritten signature in black ink, reading "Thomas P. Blasko".

Comptroller General
of the United States

D I G E S T

Public housing in the United States is faced with a dilemma--provide housing to the poorest households at great cost to the Federal Government or provide housing to a broader range of low-income families to increase revenues and decrease Federal subsidies.

Legislation passed in 1974 requiring the housing of a broader range of low-income families has not been widely carried out. Housing poor families in preference to the poorest households involves difficult choices. This is illustrated by the fact that in the public housing agencies GAO visited, families in the \$2,000 to \$3,999 income range predominated, whereas families earning \$6,000 or more generally represented less than 10 percent of the families being housed.

Moral as well as administrative problems must be overcome before this concept is accepted. Until then, financial deterioration and increased dependence on Federal subsidies may continue.

Over a 6-year period, these subsidies in 1979 totaled \$3 billion, and the Department of Housing and Urban Development (HUD) estimates that in 1980 they will be about \$742 million--\$445 million more than was spent in 1974.

GAO reviewed six public housing agencies in the cities of Baltimore, Maryland; Boston, Massachusetts; Newark, New Jersey; New York, New York; and Philadelphia and Pittsburgh, Pennsylvania. These areas contained about 14 percent of the low-rent public housing units available nationwide.

The following problems were noted:

- Only one of the six agencies, the New York City Housing Authority, had begun to select tenants with a broader economic range. (See p. 9.) About \$33 million in additional rental revenues would have been earned by the other five authorities in 1 year had they housed the required broad range of low-income families. (See p. 18.)

--Officials in four HUD field offices told GAO that housing agencies rarely complied well with this legislative requirement in their areas of jurisdiction. (See p. 11.)

--Very low income families continue to predominate in public housing, while inflation plays a role in increasing operating costs. (See pp. 14 and 15.)

GAO's review showed that much time will be needed to achieve the legislative requirement. Once achieved, however, it may not eliminate the need for some Federal subsidies. (See p. 19.) Public housing agencies and HUD face problems in finding and placing a broad range of low-income families generally representative of the eligible community they serve. For example:

--Some agencies oppose housing higher income eligible families in preference to very low income families. (See p. 21.)

--HUD guidance and monitoring of housing agencies has been inadequate. (See p. 23.)

--Housing waiting lists do not contain enough higher income eligible families. (See p. 26.)

--Some applicants refuse to move into projects because of their poor physical condition and/or location. Consequently, implementing a broad range-of-income approach for each agency housing project is difficult. (See p. 28.)

--Some families, such as those displaced by governmental action or fires, are placed in public housing in preference over others. (See p. 29.)

RECOMMENDATIONS

The Secretary of HUD should:

--Give public housing applicants who are not housed because of higher income eligible families priority consideration for housing in other HUD programs. While this recommendation may not result in reducing overall Federal expenditures for subsidized housing, it would help remove a major obstacle to implementing the legislative requirement nationwide and improve the financial solvency of public housing agencies.

- Reemphasize the legal requirements for housing a broad range of eligible families and provide detailed guidance on how to establish and implement a system of housing priorities in accord with the legislative requirement.
- Conduct training sessions for housing agencies on how to establish and implement an income mix tenant selection system using the New York City Housing Authority's method as one way of implementing the legislative requirement.
- Monitor housing agencies' compliance with the legislative requirement.
- Require that a plan for nationwide implementation be developed and an evaluation be prepared periodically on the status of such implementation. The evaluation should include information on (1) the number of housing agencies which have begun to carry out the legislative requirement and those that have not, (2) the number of housing agencies which have achieved a tenant composition representative of the eligible community they serve, and (3) estimates of the additional revenues which have not yet been realized and the time period needed for achieving these revenues. (See p. 30.)

GAO also recommends that the Congress amend the legislative requirement to give the Secretary of HUD the authority to waive the broad range of low-income requirements for housing agencies located in areas not served by other HUD programs. (See p. 31.)

AGENCY COMMENTS

HUD agreed with GAO's recommendations to the Secretary of HUD and outlined steps it would take concerning the findings in this report.

HUD pointed out however, that it cannot guarantee the universal housing of families with a broad range of incomes in every public housing project. As long as funds and housing fall short of meeting the needs of all poor families, any shift in the eligible population served by public housing will meet powerful resistance because access to public housing for the neediest will be limited.

Nevertheless, HUD said it is committed to the legislation not only because it is required to do so by law but also because of its promise of a favorable impact on the financial and social stability of public housing projects. (See p. 31.)

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
PHA	public housing agency

CHAPTER 1

INTRODUCTION

The Federal Government sponsors a number of programs which provide assistance to low-income families and individuals in obtaining decent housing. One of the largest is the Low-Rent Public Housing Program operated by the Department of Housing and Urban Development (HUD).

The United States Housing Act of 1937, as amended (42 U.S.C. 1401 et seq.), authorizes HUD to conduct an assistance program for public housing. Under this program, decent, safe, and sanitary dwellings are to be made available to families and individuals that cannot afford standard private housing.

The Low-Rent Public Housing Program is administered at the local level by a public housing agency (PHA). State legislation authorizes PHAs as independent legal entities to develop, own, and operate low-rent public housing projects. PHAs may acquire public housing projects by constructing or rehabilitating structures for low-income households. PHAs' responsibilities include establishing admission policies and rent schedules subject to HUD approval.

HUD financially assists PHAs by making loans for developing new housing projects and by making annual contributions according to contracts with PHAs. Annual contributions are for (1) paying the principal and interest (debt service) on bonds and notes sold by PHAs to obtain funds for developing projects and (2) paying operating subsidies. Operating subsidies consist primarily of amounts paid to PHAs to maintain adequate operating and maintenance services and to insure financial solvency of housing projects.

In addition to financial aid, HUD (1) provides technical assistance to PHAs in developing projects and (2) reviews administration of the projects after construction to determine whether they are operated efficiently and effectively and maintained according to statutory requirements. HUD area office staffs assist PHAs in planning, developing, and managing housing projects. Historically, HUD has viewed its role in public housing as one of controlling PHAs' expenditures and providing them advice and assistance.

As of June 30, 1978, about 2,800 PHAs were in operation with about 1.2 million housing units available for occupancy. For the 12-month period ending September 30, 1978, HUD reported annual contributions to PHAs of about \$1.8 billion. This consisted of about \$685 million for operating subsidies and \$1.1 billion for debt service. HUD's budget estimate for fiscal year 1980 included assistance for constructing and

rehabilitating an additional 46,000 new units. Over 3 million people, or approximately 1.5 percent of the U.S. population, now live in low-rent public housing.

Each PHA is authorized to establish maximum income limits for admission, subject to HUD review and approval. HUD has not placed income limits on PHAs for admission, but HUD regulations provide that no documentation is required if income limits are generally within a range of about 64 to 72 percent of area median income. PHAs are required to submit supporting documentation when proposed income limits vary from this range. A HUD official estimated that currently about 25.5 million families are eligible for the Low-Rent Public Housing Program.

DETERIORATING FINANCIAL CONDITION OF PHAS BEFORE 1974

The financial condition of some of the Nation's PHAs began deteriorating in the late 1950s. By fiscal year 1968, operating expenses nationwide began to exceed rental revenues. Because of deteriorating financial conditions, operating subsidies to PHAs increased from \$108 million to \$297 million in fiscal years 1971 and 1974, respectively. The major reasons were an increased number of extremely low income tenants in public housing for whom Federal laws limited the amount of rent that could be charged, and increased cost of operations due to inflation, vandalism, and the provision of new services. These factors were pointed out in our report to the Congress entitled "Local Housing Authorities Can Improve Their Operations and Reduce Dependence on Operating Subsidies," (RED-75-321, Feb. 11, 1975) and are summarized in the following sections of this chapter.

Changing composition of tenants

In the early years of public housing, PHAs were required to pay their administrative and operating expenses primarily from rental income. Most families occupying public housing were described as "working poor" and could pay rents that were sufficient to meet PHAs' regular operating and administrative expenses.

Since 1937 various amendments to the Housing Act have been enacted that have affected the characteristics of families selected to occupy low-rent public housing. These amendments included establishing maximum rent limits, prohibiting discrimination against welfare families in terms of eligibility for admission, setting maximum income limits for admission and continued occupancy, and making provisions in housing for the elderly and larger families.

The number of families in public housing receiving public assistance or benefits, such as social security, has increased greatly. In 1952 about 26 percent of the families moving into public housing received public assistance or benefits. The median income of these tenants was about 58 percent of the income level of the general U.S. population. In comparison, 89 percent of the families moving into low-rent projects during the 6-month period ended March 1973 received public assistance or benefits, and had median income equal to only 30 percent of the general population.

By the late 1950s PHAs began to experience the financial impact of the lower rent levels charged families with extremely low incomes. In 1961 legislation was enacted which provided special family subsidies to compensate PHAs for housing the elderly, and in 1968, the subsidies were made applicable for housing large families and those with extremely low incomes.

Limitation on rental revenue

Beginning in December 1969, three amendments to the Housing Act of 1937 were enacted, commonly referred to as the Brooke amendments, which limited the amount of rent charged to tenants. The Brooke amendments generally limited tenants' rent payments to 25 percent of their adjusted incomes--gross family income less several exclusions of income.

Before the enactment of the Brooke amendments, PHAs could increase rents to meet increasing costs. By the late 1960s, some PHAs, to meet operating expenses, were charging many low-income families rents of 50 to 75 percent of their incomes. The principal effects of the Brooke amendments were to (1) reduce the income on which rent was computed and (2) eliminate minimum rents, previously established by PHAs, in those instances where such rents exceeded the 25 percent limitation. HUD estimated that the Brooke amendments reduced PHAs' rental revenue by about \$167 million annually.

Increased cost of operations

Since fiscal year 1968 PHAs' operating expenses nationwide have exceeded rental revenue. These expenses have increased partially due to inflation and the provision of new or expanded services to tenants.

For example, PHA rental income averaged \$49.18 per unit month in fiscal year 1970, while rental income averaged only \$45.27 per unit month in fiscal year 1974. PHAs' expenditures increased to \$70.23 per unit month in fiscal year 1974 from \$51.83 in fiscal year 1970.

Rapidly growing expense items included utilities, protective services, project maintenance, and administrative costs. Examples of new or expanded tenant services include tenant counseling and support provided tenant councils.

FEDERAL INTERVENTION IN 1974 TO REDUCE
DEPENDENCE ON OPERATING SUBSIDIES

In August 1974, the Congress enacted the Housing and Community Development Act, Public Law 93-383, (Housing Act of 1974). The act included provisions for improving the economic conditions of public housing. It affected the financial operations of PHAs in a number of ways, and included three major provisions aimed at increasing PHAs' rental revenues. The three provisions relate to requiring each PHA to (1) place in its projects a broad range of low-income families capable of paying higher rents, (2) establish a minimum rent which each tenant must pay, and (3) obtain aggregate rentals which are not less than one-fifth of the income of all families in residence.

Of the three, the provision with the greatest potential for increasing PHAs' rental revenues is the one on housing a broader economic range of eligible families. The intent of the Congress in enacting this legislative provision was to increase PHAs' rental revenues and reduce their reliance on Federal operating subsidies and improve social conditions.

The June 17, 1974, House Committee on Banking and Currency report, which accompanied the House bill on the Housing Act of 1974, states that the committee was disturbed over the widening gap between revenues received and the costs PHAs incurred in administering the public housing program. The report also pointed out that some authorities were on the brink of bankruptcy while others indefinitely deferred property maintenance and tenant services.

The February 27, 1974, Senate Committee on Banking, Housing and Urban Affairs report, which accompanied the Senate version of the same bill, states that while PHAs are expected to give particular attention and priority to very low income families, the committee expects that in the long run, more housing developments will be occupied by a cross section of lower income households than by the very poor. The report also states experience has demonstrated that a cross section of occupancy is essential in creating economically viable housing as well as a healthy social environment.

The preamble to the HUD regulations implementing this legislative provision states that HUD considers the committee reports as clear congressional intent to achieve a cross section of incomes to create economically viable housing, which

would thereby reduce, as much as possible, the need for operating subsidies. Presently, the Congress is considering legislation which, among other things, could increase the amount of rent charged some PHA tenants from 25 to 30 percent of income. On May 2, 1979, House bill 3875 was introduced in the Congress to amend and extend, among other things, certain Federal laws relating to housing. The proposed legislation would retain the rental payment limitation of 25 percent of adjusted family income for very low income families (families with incomes of 50 percent or less of area median), but increase the limitation to 30 percent of such income for other families.

SCOPE OF REVIEW

The preceding sections of this chapter present a perspective on the financial condition of PHAs from their creation in 1937 through 1974 when the Congress by the Housing Act of 1974 required that certain actions be taken to reduce the need for increasing Federal subsidies. Subsequent chapters discuss developments following the enactment of the Housing Act of 1974.

While legislative requirements were aimed at reducing Federal subsidies to PHAs by reducing operating costs and increasing rental revenues, our review was limited to legislative requirements to increase PHAs' rental revenues. Specifically, we reviewed PHAs' operations regarding the new tenant selection, minimum rent, and PHA rental revenue requirement provision of the Housing Act of 1974 to determine whether PHAs had implemented these provisions and reduced their dependence on Federal operating subsidies. We examined HUD and PHA financial and statistical data, interviewed HUD and PHA officials, examined laws, regulations, policies, procedures, records, and sampled case files of families waiting to get into, and those that had moved into, PHA-owned low-rent public housing. Random samples of waiting and move-in lists were not made at the Housing Authority of the City of Newark, New Jersey.

We made our review at HUD headquarters, Washington, D.C., and at the following HUD regional and area offices and PHAs:

- HUD Region I, Boston, Massachusetts
 - HUD Boston Area Office, Boston, Massachusetts
 - Boston Housing Authority, Boston, Massachusetts.

- HUD Region II, New York City, New York
 - HUD Newark Area Office, Newark, New Jersey
 - HUD New York Area Office, New York City, New York
 - Housing Authority of the City of Newark,
New Jersey
 - New York City Housing Authority, New York City,
New York.

--HUD Region III, Philadelphia, Pennsylvania
HUD Baltimore Area Office, Baltimore, Maryland
HUD Philadelphia Area Office, Philadelphia,
Pennsylvania
HUD Pittsburgh Area Office, Pittsburgh, Pennsylvania
Housing Authority of Baltimore City,
Baltimore, Maryland
Philadelphia Housing Authority, Philadelphia,
Pennsylvania
Housing Authority of the City of Pittsburgh,
Pittsburgh, Pennsylvania.

During their fiscal years ending during calendar year 1977, the six PHAs we reviewed had about 167,000 housing units under management which comprised about 14 percent of the total units available for occupancy in the Low-Rent Public Housing Program. During the same period, HUD paid \$149 million in operating subsidies to the six PHAs.

CHAPTER 2

FINANCIAL DETERIORATION OF SOME OF THE

NATION'S PHAS CONTINUES BECAUSE KEY

LEGISLATION HAS NOT BEEN IMPLEMENTED NATIONWIDE

The financial condition of the Nation's PHAs continues to deteriorate despite legislative provisions enacted 5 years ago aimed at reducing this trend. From fiscal years 1974 to 1980 Federal operating subsidies to PHAs have increased by an estimated \$445 million, or 150 percent, to \$742 million. PHAs have adopted the legislative provisions of charging tenants minimum rents and bringing total rent revenues in line with tenant incomes.

However, the legislative provision with the greatest potential for increasing rental revenues--housing families with a broad range of low incomes capable of paying higher rents--has not been implemented nationwide. The trend toward housing very low income families with lower rent paying ability continues while inflation continues to play a major role in increasing PHA operating costs. Unless action is taken, continued financial deterioration and increased dependence on Federal subsidies may result.

Only one of the six PHAs we reviewed, the New York City Housing Authority, had begun to select tenants with the objective of achieving over time a broader economic range of low-income tenants.

We estimate that about \$33 million of additional rental revenue would have been earned by the other five PHAs during 1 year had they housed the required broad range of low-income families. Federal subsidies to these five PHAs could have been reduced from about 32 to 66 percent had they earned the \$33 million. Also, HUD officials at four area offices we visited, responsible for 300 PHAs, told us that most PHAs under their jurisdiction had not implemented the income mix requirement.

Serious problems have prevented the housing of families with a broad range of low incomes nationwide. Some problems represent obstacles to implementing the income mix requirement and others prevent the achievement of the desired broad range of low-income tenants. One of the most important is the objection raised by some PHAs to housing higher income eligible families to achieve an income mix while families of very low income, who are considered to be those most in need, may have to wait longer or be denied housing. While no simple solution exists to the problem of motivating PHAs to increase

rental revenues by implementing the income mix requirement, PHAs must overcome these problems to become more economically viable nationwide.

Unless HUD makes a more vigorous commitment, the requirement of housing families with a broader range of low incomes stands little chance of success, and the opportunity for PHAs to earn large amounts of additional rental revenues may not be realized. HUD needs to overcome problems involving (1) opposition by some PHAs to housing higher income eligible families in preference to very low income families, (2) waiting lists at PHAs that do not contain enough higher income eligible families, and (3) housing preferences which PHAs are permitted to give certain families.

HUD needs to provide PHAs with better guidance and monitoring to help them develop tenant selection procedures in accord with the broad range of low incomes requirement, and to insure implementation and achievement of the requirement.

FINANCIAL CONDITION OF PHAs
CONTINUES TO DETERIORATE

The financial condition of some PHAs since enactment of the Housing Act of 1974 has continued to deteriorate. Total operating subsidies increased from \$297.1 million in fiscal year 1974, to a projected \$742 million in fiscal year 1980, or a 150-percent increase. Operating subsidies will amount to about \$3 billion between fiscal years 1974 and 1980. The growth of operating subsidies since fiscal year 1974 is presented in appendix II.

PHAs' operating expenses nationwide have continued to exceed revenues. While PHAs' rental revenues nationwide on the average increased 42 percent, expenses increased 48 percent on a per unit month basis from fiscal years 1974-77. Consequently, operating subsidies increased about 64 percent during the same period of time on a per unit month basis. The widening gap between expenses and revenues during the period 1971-77 is shown in appendix III. The following table shows the changes in PHAs' per unit month revenues, operating subsidies, and expenditures for the years ended June 30, 1974 and 1977.

	1974 per unit <u>month</u>	1977 per unit <u>month</u>	1974-77 percent <u>change</u>
Rental income	\$45.27	\$ 64.37	42
Operating subsidies	25.42	41.67	64
Total expenditures	70.23	104.17	48

Financial data for five of the six PHAs we reviewed showed similar trends in the growth of rent revenues, expenses, and subsidies. The following table shows the percentage growth in each category for the five PHAs.

<u>PHA</u>	<u>Per unit month percentage growth fiscal years 1974-77</u>		
	<u>Rent revenues</u>	<u>Total expenses</u>	<u>Operating subsidy</u>
Baltimore	25	29	51
Boston	9	32	47
Newark	-1	17	106
Philadelphia	18	61	49
Pittsburgh	21	23	32

LEGISLATIVE REQUIREMENT TO HOUSE FAMILIES
WITH A BROAD RANGE OF LOW INCOMES IS NOT
BEING WIDELY IMPLEMENTED

Our review of tenant selection policies and procedures at six PHAs showed that only one, the New York City Housing Authority, had begun to select tenants with the objective of achieving over time a broad range of low-income families. In addition, HUD officials in four of the six area offices we visited during our review told us that most PHAs under their jurisdiction did not house families with the objective of achieving a broad range of low-income tenants.

The law requires housing a broad
range of low-income families

The Housing Act of 1974, section 6(c), subpart 4(A) states:

"* * *the public housing agency shall comply with such procedures and requirements as the Secretary may prescribe to assure that sound management practices will be followed in the operation of the project, including requirements pertaining to--
(A) the establishment of tenant selection criteria designed to assure that, within a reasonable period of time, the project will include families with a broad range of incomes and will avoid concentrations of low-income and deprived families with serious social problems, but this shall not permit maintenance of vacancies to await higher income tenants where lower income tenants are available * * *."

HUD issued regulations governing PHA tenant selection effective August 8, 1975. They were required to establish tenant selection policies and procedures which take into

consideration the needs of families for low-income housing and the statutory purpose of developing and operating socially and financially sound low-income housing projects. Also, PHAs were required to design policies and procedures to

- attain, within a reasonable period of time, a tenant body in each project composed of families with a broad range of incomes and rent-paying ability which is generally representative of the range of incomes of low-income families in the PHAs' area of operation and
- avoid concentrations of the most economically and socially deprived families.

HUD regulations require PHAs to develop tenant selection criteria to achieve the basic objective of housing a broad range of low-income families. In developing this criteria, HUD requires PHAs to conduct several studies to determine the

- distribution of incomes of low-income families in the PHAs' area of operation, of all tenants in residence, and of families on the PHAs' waiting list,
- average operating costs of the PHA's projects and the average rent required to meet such costs, and
- average rents which could be achieved based on housing a broad range of low-income families, tenants in the PHAs' projects, and families on the waiting list.

Most PHAs are not housing families with a broad range of low incomes

Five PHAs used a variety of methods to select tenants, including the selection of some higher income poor tenants with higher rent paying ability. However, none of the five PHAs selected tenants with the objective of achieving over time a tenant body in each project composed of families with a broad range of incomes and rent-paying ability generally representative of the incomes of low-income families in their area of operation. This occurred even though three of the five PHAs had written policies that included the objective of achieving an income mix.

For example, the Philadelphia Housing Authority's occupancy policy states, in part:

"Tenants will be selected from among eligible applicants * * * within such ranges of rent * * * to insure the financial solvency and stability of the low-rent housing program. The following criteria shall be reasonably

related to achieving the basic objective, within a reasonable period of time, of housing tenant families with a broad range of income, representative of the range of incomes of low-income families in this Authority's area of operation * * *."

Although this policy is in line with HUD's regulations, we found the Philadelphia Housing Authority selected tenants on a first-come, first-serve basis rather than in line with its policy of housing tenant families with a broad range of incomes. The Boston and Pittsburgh housing authorities also used the first-come, first-serve selection procedures. The Baltimore and Newark housing authorities used tenant selection procedures that were designed to at least match the rent charged the previous tenants and to meet established rental revenue goals.

None of the PHAs we reviewed had completed all of the studies required by HUD to develop tenant selection procedures aimed at achieving a broad range of low-income families at the time of our review. Some of the PHAs we reviewed had data available which could be used to develop the required studies. For example, of the six PHAs reviewed, four had income distribution data for tenant families in residence, three had income distribution data on low-income families in the area of operation, and four had income distribution data for families on the waiting lists. However, this data had not been used to develop tenant selection procedures to house persons with a broad range of incomes.

Officials at all the PHAs we reviewed stated they were aware of the legislative requirement of housing a broad range of low-income families. PHA officials cited the following reasons for not implementing the requirement.

- Opposition to housing higher income, low-income families in preference to very low income families because families most in need may have to wait longer for or be denied housing.
- Lack of detailed guidance from HUD on how to establish tenant selection criteria to achieve an income mix.
- Absence of enough higher income eligible families on applicant waiting lists to obtain the required income mix because public housing does not attract applicants with higher incomes.

HUD officials at four of the six area offices we visited told us that most PHAs in their areas of jurisdiction had not implemented a tenant selection policy aimed at achieving a

broad range of low-income tenants in public housing. The four area offices were responsible for assisting and monitoring about 300 PHAs. Officials of the other two area offices we visited--the Newark area office and New York City area office--told us that most PHAs in their areas selected tenants to achieve a broad range of low incomes. These two HUD offices have 83 PHAs under their jurisdiction.

HUD area office officials expressed some of the same reasons as PHA officials why the broad range of incomes requirement had not been widely implemented. For example, a HUD official at one area office told us that families on PHAs' waiting lists were predominately very low income; thus a broad range of low-income families could not be selected from available applications. An official at another HUD area office told us that they did not stress implementing the income mix requirement because it created problems for PHAs and believed that the Congress would eventually revise the requirement. Some of the problems he pointed out concerned tenant selections that would no longer be made on the basis of need or first-come, first-serve, and legal action against PHAs if needy families were not housed before higher income eligible families.

Chapter 3 presents a detailed discussion of problems which must be overcome before families of a broader economic range are placed in public housing nationwide.

The New York City Housing Authority
is housing families with a
broad range of low incomes

The New York City Housing Authority was the only PHA we visited that had begun to select families with the objective of achieving a broad range of low-income families representative of their area of operation. The authority is the largest PHA in the Nation, with 96,148 federally supported dwelling units as of December 31, 1977. Since December 31, 1975, the authority's policy has been to attain an integrated tenant body of families with a broad range of incomes and rent-paying ability which is generally representative of the ranges of low-income families in New York City. To achieve this objective, the authority established an income tier system.

The eligible universe of applications is divided into three income tiers according to family size. For example, a family with three or four members would be placed into one of the three following income tiers:

<u>Family size</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
3 - 4	\$4,700 or less	\$4,701 - 7,500	\$7,501 - 10,700

Authority officials told us that the income ranges within the tiers have changed several times since its inception to reflect changes in minimum payments made under public assistance, social security, and supplemental security income.

The authority estimates vacancies monthly and prepares a list of applicants to fill the vacancies. The list of applicants is prepared based on income tier, housing priority, family size, location choice, and application date.

The authority structures the list so that 20, 40, and 40 percent of the applicants are from tiers 1, 2, and 3, respectively. Applicants placed on this list are then interviewed and screened for eligibility. Applicants initially determined to be eligible are offered housing at projects which offer the best opportunity for assignment within 3 months. If the applicant accepts the project offered, the authority will send the application to that project. At the project level the application is placed on a waiting list. Emergency cases and inter-project transfers receive priority treatment.

The income tier selections of 20, 40, and 40 percent were established with the goal that an equal number of applicants from each tier would accept housing offers. These goals may not be reached because some applicants are determined to be ineligible, cannot be located, or refuse units offered.

The impact of implementing the income mix requirement on the New York City Housing Authority's rental revenues is difficult to determine. Although an income mix policy has been in effect since December 31, 1975, the authority has not made comprehensive studies to determine the additional rental revenues attributable to the income tier system. An authority official told us that studies have not been made because (1) the transfer of State of New York housing units to Federal status has changed the tenant composition of the authority and (2) the income tier system had only been in effect for 30 months at that time. He also told us that he expected significant progress toward achieving the required income mix within the next 5 years.

We noted, however, that the growth of rental revenues and operating expenses for the New York City Housing Authority from 1974-77 on a per unit month basis showed that rental revenues grew more than operating expenses. During this 3-year period, rental revenues increased 41.8 percent while expenses increased 23.6 percent or an 18.2-percent difference. This trend is also attributable to the fact that the authority had begun to charge tenants minimum rents as discussed on page 20. Although rent revenues have increased faster than

expenses, the authority still required an operating subsidy to cover the difference between revenues and operating expenses. Of the six PHAs we visited, the New York City Housing Authority was the only PHA where rental revenues had grown faster than expenses.

Very low income families continue to predominate in public housing

Because a broad range of low-income families are not being housed on a nationwide basis, the trend of housing lower income families continues. Nationally, the average income and rents for families placed in public housing in fiscal year 1977 were lower than for families already in public housing.

<u>Description</u>	<u>Fiscal year 1977</u>	
	<u>Families moving in</u>	<u>Families in occupancy</u>
Average monthly rent	\$ 67	\$ 74
Average annual income	4,029	4,692

Our analysis of families housed by the PHAs reviewed during their fiscal years ending in calendar year 1977 showed similar results. At two PHAs the average rents of families placed in housing during the period reviewed were less than the average rent of families already housed. Also, gross incomes of the families placed in housing by four of the PHAs reviewed during the same time period showed that families in the \$2,000 to \$3,999 income range predominate as illustrated below.

<u>Income range</u>	<u>Location and percentage distribution</u>			
	<u>Baltimore</u>	<u>Boston</u>	<u>Philadelphia</u>	<u>Pittsburgh</u>
Number of families housed	1,442	1,066	1,058	851
Under \$2,000	28	5	1	6
\$2,000 - \$ 3,999	54	62	63	67
\$4,000 - \$ 5,999	10	24	25	21
\$6,000 - \$ 7,999	5	7	9	3
\$8,000 - \$11,999	3	2	2	2
Over \$12,000	0	0	0	1

Nationwide statistics on income sources of families housed in public housing during fiscal year 1977 show that 73 percent depend on public assistance or benefits, such as social security.

Income data available at five PHAs we reviewed showed that 38 to 67 percent of the families housed during the PHAs' fiscal years ending in calendar year 1977 depended on public assistance.

The sources of income for families in residence as of December 31, 1977, at the Housing Authority of Baltimore City is presented below to show the rental sources of a large PHA. Most of the families depend on income from sources other than employment.

<u>Sources of income</u>	<u>Number of families</u>	<u>Percent of PHA tenants</u>
Public assistance and other income	7,946	50
Public assistance	5,472	35
Wages	1,471	9

Additional characteristics of families placed in five of the PHAs we reviewed are presented in appendix IV.

Inflationary pressures on operating expenses continue

Since 1974 inflation has continued to play a major role in the increase of PHA operating expenses. To illustrate the impact of inflation on PHAs' operations since 1974, we compared changes in both actual and constant dollars for PHAs' rental revenues and operating expenditures on a per unit month national basis. The table on page 16 reflects these changes based on a 1974 constant dollar as adjusted by changes in the Consumer Price Index for housing.

Between fiscal years 1974 and 1977 PHAs experienced on a nationwide basis a 43.5-percent increase in rental receipts in actual dollars. However, when considering inflation the value of rental receipts to PHAs increased only 6.9 percent during this period. Concurrently, PHAs' expenditures had increased 48.3 percent in actual dollars, but when adjusted for inflation, PHAs' expenditures actually increased only 10.5 percent.

The faster growth rate of operating expenses can be attributed to large increases in specific expense items. For example, utilities grew by 81 percent over the same 3-year period. The table on page 17 illustrates the growth rates of PHA expenses nationwide.

Per Unit Month Dollar and Constant Dollar Changes in
PHA Operations from Fiscal Years 1974-77

<u>Classification</u>	<u>Fiscal year 1974 per unit month</u>		<u>Fiscal year 1977 per unit month</u>		<u>Fiscal year 1974-77 percent change</u>	
	<u>Actual dollars</u>	<u>Constant dollars</u>	<u>Actual dollars</u>	<u>Constant dollars (note a)</u>	<u>Actual dollars</u>	<u>Constant dollars</u>
Operating revenues (excluding subsidies)	\$47.76	\$47.76	\$ 68.55	\$51.06	43.5	6.9
Operating expenses	70.23	70.23	104.17	77.60	48.3	10.5

a/Constant 1974 dollars computed from Consumer Price Index for housing.

Growth of PHA Operating Expenses Nationwide
From Fiscal Years 1974-77

<u>Expense item</u>	<u>Cost per unit month in 1974</u>	<u>Cost per unit month in 1977</u>	<u>Percent growth</u>
Utilities	\$19.52	\$35.34	81
Maintenance	22.87	31.28	37
Tenant services	1.14	1.56	37
Administrative	11.52	15.57	35
Protective services	1.69	2.26	34
Payment in lieu of taxes	2.33	2.71	16
Collection losses	.51	.55	8
Nonroutine	4.21	4.52	7
Other	<u>6.44</u>	<u>10.38</u>	61
Total	<u>\$70.23</u>	<u>\$104.17</u>	48

HOUSING LOW-INCOME FAMILIES WITH A
BROAD RANGE OF INCOMES WOULD
REDUCE OPERATING SUBSIDIES

If PHAs achieved a broader economic range of low-income tenants representative of the communities which they serve, this would increase their rental revenues and correspondingly decrease PHA reliance on Federal operating subsidies. However, achieving an income mix and realizing the increased rental revenues associated with such a mix may take considerable time and would not completely eliminate the need for operating subsidies.

We estimate that for fiscal years ending in calendar year 1977, five PHAs we reviewed would have earned a total of \$33 million of additional rental revenues had they achieved a tenant body representative of the communities which they served. The additional revenue represents the difference between actual rent revenues realized and the rental revenues which would be obtained if the PHAs had achieved such a representative tenant body. The following table shows the potential additional rental revenues for the five PHAs we reviewed that had not implemented the income mix policy.

Comparison of Actual and Potential
Rent Revenues for Fiscal Years Ending in
Calendar Year 1977

PHA	Actual rent revenues	GAO computation of potential rent revenues	Potential increased revenues	Percentage reduction of subsidy
Baltimore	\$11,479,729	\$16,804,224	\$5,324,495	48
Boston	7,744,160	17,210,394	9,466,234	66
Newark	9,095,665	17,221,200	8,125,535	51
Philadelphia	15,363,656	24,175,663	8,812,007	41
Pittsburgh	8,353,861	10,081,908	1,728,047	32

The case of the Housing Authority of Baltimore City follows to illustrate the additional rental revenues which could have been earned. During 1976, 64,446 families eligible for public housing lived in the city of Baltimore, Maryland. About 46,440 were non-elderly families and 18,006 elderly families. According to HUD income distribution data for Baltimore, non-elderly families could pay an average rent of about \$104 per month and elderly persons about \$74 per month. HUD derived these rent computations on the basis that eligible persons paid rents of 25 percent of their incomes as adjusted-gross income less several exclusions of income. The average rent for all eligible persons weighted by the number of families and elderly persons eligible for public housing in Baltimore is \$96 a month or \$1,152 a year.

If the authority were able to rent their 14,587 units for \$1,152 a year, it would have obtained about \$16.8 million in rental revenues compared to actual rental revenues of about \$11.5 million for its fiscal year ended June 30, 1977. The difference of \$5.3 million represents 48 percent of the subsidy the authority received for fiscal year 1977. We recognize that this calculation produces only a rough estimate of the additional rental revenues that can be achieved by implementing a tenant selection policy aimed at housing a broad range of low-income families. In actual practice, a PHA would be faced with problems in realizing such rental revenues, such as vacancies, rental collection losses, and difficulties in achieving an income mix exactly representative of the eligible families in its area of operation.

Housing a broad range of low-income
families will not completely solve PHAs'
financial problems

Achieving a broader economic range of low-income families in public housing will not completely solve the financial problems of the Nation's PHAs. Once implemented, some PHAs

will take considerable time to achieve an income mix, and once achieved, the additional revenues earned will not eliminate the need for some operating subsidies.

Although PHAs control the selection of families moving into public housing, the number of families leaving public housing is relatively small, and new construction is limited. With low turnover, developing a broad range of low-income tenants could take many years, as illustrated by the turnover rates in the following table.

<u>PHA</u>	<u>Turnover rate</u> (percent)	<u>Units available</u>
Baltimore	9.1	14,587
Boston	8.3	12,328
New York	<u>a/</u> 8.4	96,148
Philadelphia	4.9	21,405
Pittsburgh	8.8	9,657

a/Includes interproject transfers.

Presently, new construction of public housing units is relatively limited. Only 46,000 units nationwide were budgeted for new construction and rehabilitation in fiscal year 1980. This represents only a 4-percent increase in the total number of public housing units available.

Our estimates of the financial impact of achieving the income mix requirement indicate that operating subsidies will not be completely eliminated. Subsidies would have been reduced from about 32 to 66 percent during the fiscal years ending in calendar year 1977 for the five PHAs we reviewed. In terms of dollars, the \$68 million in operating subsidies provided the five PHAs in 1977 could have been reduced by \$33 million to \$35 million.

OTHER PROVISIONS AIMED AT IMPROVING PHAS' REVENUES ARE BEING IMPLEMENTED

In addition to the legislative requirement of housing a broader economic range of low-income families, the 1974 Housing Act required that

- the rent for any dwelling unit shall not be less than the higher of (1) 5 percent of the gross income of the family occupying the dwelling unit or (2) if the family is receiving payments for welfare

assistance from a public agency and a part of such payments, adjusted in accordance with the families actual housing costs, is specifically designated by such agency to meet the family's housing costs, the portion of such payments which is so designated and

--the aggregate rentals required to be paid in any year by families residing in the dwelling units in projects to which the operating subsidy applies shall not be less than an amount equal to one-fifth of the family income of all such families.

The PHAs we visited had implemented the provisions relating to charging tenants minimum rents and achieving aggregate rentals of not less than one-fifth of family income. At five of the PHAs we reviewed, rent to family income ratios ranged from about 21 to 25 percent.

The New York City Housing Authority was the only PHA that had estimated the impact of charging tenants minimum rents. This authority estimated that \$10 million additional rental revenues were generated in 1976 and \$12 million annually thereafter because of the provision allowing PHAs to charge rents of not less than the amount of public assistance payments designated for housing costs. This provision had no impact at the other PHAs we visited because in their States public assistance payments did not contain a designated amount for a housing allowance.

CHAPTER 3

PROBLEMS IN ACHIEVING A BROADER RANGE

OF LOW INCOMES IN PUBLIC HOUSING

PHAs and HUD face major problems in implementing and achieving the required broad range of low-income families generally representative of the eligible community they serve. Problems of a moral and administrative nature must be overcome before an income mix can be fully accepted nationwide. These problems are:

- Opposition by some PHAs to housing higher income eligible families in preference to the very low income.
- Inadequate HUD guidance and monitoring of PHAs.
- Absence of enough higher income eligible families in PHAs' waiting lists.
- Difficulties in implementing a broad range of incomes approach for each PHA housing project since some applicants refuse to move into certain projects because of their poor physical condition and/or location.
- Preferences which are permitted to be given in placing certain families in public housing.

No simple solutions to overcoming some of these problems exist. The opposition of some PHAs to housing higher income eligible families in preference to the very low income involves a hard choice the effect of which is to give higher income eligible families preference in housing over the very low income whom PHAs consider more in need. Consequently, implementing the income mix requirement poses a dilemma for some PHAs. While implementing this requirement will improve the financial condition of PHAs, some perceive that financial improvement is being achieved at the expense of very low income families. On the other hand, if the trend toward placing very low income families in public housing continues, further financial deterioration and increasing dependence on Federal subsidies can be expected.

OPPOSITION TO HOUSING HIGHER INCOME ELIGIBLE FAMILIES IN PREFERENCE TO THE VERY LOW INCOME FAMILIES

Higher income eligible families must be housed to achieve a broad range of low-income families in public housing. Since the very poor currently predominate in public housing, the

effect of the legislative requirement is to give higher income applicants preference over very low income applicants.

The broad range of incomes requirement raises a difficult issue with respect to meeting the housing needs of the very poor. The alternative of housing persons most in need creates major social and financial problems for housing authorities whose tenants are predominately very low income. During the evolution of public housing, the pendulum has swung back and forth on this issue. Until the Housing Act of 1949, many PHAs, with Federal support, barred welfare tenants from occupancy in public housing. During the 1950s and 1960s, PHAs were encouraged to house very low income families.

Officials at the five PHAs we visited that had not implemented the legislative requirement of housing families with a broad range of low incomes generally were of the opinion that low-rent public housing is for the most needy families. They said that this objection was one of the reasons that the income mix requirement had not been implemented. Officials at two of the PHAs told us they would have serious reservations about implementing this requirement even if HUD took more forceful action to require implementation. One of the officials told us that his authority has a social responsibility to the community of providing housing to the most needy, and that the families being housed were the very poor.

In this regard, the waiting lists at the five PHAs showed that very low income families were generally characterized as families on public assistance, headed by females with two or three dependents.

The National Tenants Organization--which represents tenants groups from various PHAs--is also opposed to the income mix provision of the Housing Act of 1974. The organization believes the Housing Act works to the disadvantage of persons most in need. An official of this organization told us that applicants with the ability to pay more rent will be admitted more rapidly and in greater numbers than their less affluent counterparts.

A representative of the National Tenants Organization told us that HUD's regulations compound the problem because they require an income mix representative of the community at large. He said that in most communities, the percentage of persons at the higher end of the income-eligible scale who are interested in public housing is significantly smaller than the percentage at the lower end. If quotas are established based on incomes in the community without regard to people's interest in applying, applicants with higher incomes will face much less competition for housing than will applicants with lower incomes. This representative also told us that selecting tenants based on the income mix of the waiting list makes more sense.

With regard to alternatives for housing low-income families, the Assistant Secretary for Housing--Federal Housing Commissioner stated in a December 1, 1977, memorandum to the Secretary of HUD that all of HUD's assisted housing programs must be considered in meeting the housing needs of the low-income eligible population. He further stated that HUD's obligation to proceed with alternative housing programs (especially HUD's section 8 leased housing program) becomes more profound in implementing the broad range of incomes requirement.

Alternative housing programs operated by HUD are available that serve generally the same income group as public housing. For example, the section 8 leasing program noted by the Assistant Secretary has been the principal Federal program for housing lower income persons since August 1974. Section 8 provides financial assistance to lower income families enabling them to lease from private owners existing, newly constructed, or substantially rehabilitated housing. At least 30 percent of the assisted units are to be initially occupied by very low income families and, to the extent possible, this level is required to be maintained in subsequent leasing.

INADEQUATE HUD GUIDANCE AND MONITORING

Despite the trend of increasing operating subsidies and the deteriorating financial condition of PHAs, HUD has not actively pursued implementing the broad range of incomes provisions of the 1974 Housing Act. HUD has not provided adequate guidance to PHAs for effective implementation nor effectively monitored PHAs' compliance with the income mix requirement.

HUD's Assistant Secretary for Housing--Federal Housing Commissioner has pointed out that efforts made by HUD to further the implementation of the income range requirement included:

1. In November and December 1975, after the publication of regulations which implemented the income-range requirements, HUD headquarters conducted training for occupancy specialists from all of its field offices which concentrated heavily on the attainment of the income-range goals.
2. In January 1977 HUD published regulations governing the development of new public housing which, in effect, required the attainment of occupancy by families with a broad range of incomes in new public housing projects at the time of initial rent-up.

3. From April through June 1977, HUD headquarters conducted training for management and occupancy specialists in connection with the development of new public housing projects. The training, which involved specialists from all of the HUD field offices, was directed specifically toward achieving occupancy by families with a broad range of incomes in both new and existing projects.
4. In October 1978 HUD issued the Public Housing Occupancy Handbook. This handbook reaffirmed HUD's commitment to the achievement of the statutory objective and provided technical advice to PHAs and field offices to help attain it.
5. In its operating plan for the fiscal year ending September 30, 1979, HUD headquarters established a goal requiring its regional offices to assure the adoption of tenant selection plans consistent with the requirements of its regulations by all PHAs. Progress under this objective is monitored monthly through the Headquarters Executive Management Report System.
6. In December 1978 and January 1979, HUD again conducted training for its field office occupancy specialists. About half of each 1-week session was devoted to public housing tenant selection plans.

HUD guidance, however, provided to PHAs on implementing the broad range of incomes requirement has been general in nature and does not describe how PHAs are to implement this requirement. For example, the regulations require PHAs to achieve, within a reasonable period of time, a tenant body of families with a broad range of incomes generally representative of the income range of low-income families in the PHAs' area of operation. But HUD in its implementing regulations did not define a reasonable period of time for the preponderance of public housing units--those in operation as opposed to new units.

HUD also has not published detailed guidance or instructions on how PHAs can obtain an income mix. In this regard, no guidance was provided on the need to establish an implementation plan containing goals and timeframes for adopting the income mix requirement. HUD did conduct several training sessions as noted above for its field staff, but training for PHAs consisted of workshops on various provisions of the Housing Act of 1974, only one of which included the income mix provision.

In addition, as discussed on page 11, the PHAs we visited attributed, in part, the fact that they had not implemented the income mix requirement to inadequate guidance by HUD. Although HUD regulations require PHAs to obtain a tenant body generally representative of the income range of low-income families in the PHAs' area of operation, HUD did not provide income distribution data to PHAs on their area of operation until May 1977--almost 3 years after enactment of the legislation. HUD said that income distribution data was not given to PHAs earlier because the method by which the information was derived from census data had not been devised. 1/

HUD has not effectively monitored PHAs' compliance with the income mix requirement to ensure that they are implementing this legislative requirement. HUD area offices are responsible, among other things, for monitoring and providing assistance to PHAs on various matters.

HUD's Inspector General stated in an audit report on HUD's monitoring of 129 PHAs, dated November 27, 1978, that field office monitoring was so deficient that field offices had no assurance PHAs were administering the low-income housing program in accordance with statutory or contractual requirements. The Inspector General concluded that lack of effective monitoring occurred because HUD monitoring was assigned a low priority and HUD instructions and guidelines were fragmented and insufficient.

The HUD area offices have not monitored tenant selection activity at the Baltimore, Newark, New York, and Pittsburgh PHAs since issuance of implementing regulations. HUD officials at the four area offices responsible for these PHAs acknowledged that their monitoring of PHA operations had been deficient. They said they do not have enough personnel to perform the required management reviews and that other functions such as advice and guidance to PHAs on management methods, occupancy and property maintenance were considered more important and assigned higher priorities than monitoring. These four HUD area offices had 124 PHAs in their areas of jurisdiction.

The remaining two HUD area offices we visited had conducted management reviews at two of the PHAs we visited. However, these reviews were not effective in correcting a

1/ In a draft of this report, we said the distribution of this data was delayed by the moratorium on new public housing construction. In commenting on the draft, HUD pointed out this was the reason for the delay in distribution.

tenant selection problem at one PHA and identifying and reporting noncompliance with the income mix provision at another PHA.

The HUD Boston area office conducted a management review in June 1976 of the Boston Housing Authority's tenant selection, assignment, and transfer plan and reported that the plan did not include the objective of housing a broad range of low-income tenants. The area office recommended that the authority develop a new plan. In response to HUD's recommendation, the Boston Housing Authority wrote a new tenant selection, assignment, and transfer plan. HUD headquarters approved the new plan because it provided housing opportunities for eligible residents of Boston, even though it did not contain provisions to obtain a broad range of low-income tenants.

The HUD Philadelphia area office conducted a management review of the Philadelphia Housing Authority in early 1978 and reported that the authority was not complying with its adopted plan of selecting tenants on a first-come, first-serve basis. HUD did not report that the authority's tenant selection plan did not comply with the broad range of incomes requirement. An official of the area office told us that since 85 to 95 percent of the authority's housing applicants are on public welfare, little likelihood exists that the PHA will ever secure a broad range of low-income tenants. Accordingly, the area office did not direct the PHA to implement the broad range of incomes requirement.

DIFFICULTIES IN ATTRACTING HOUSING
APPLICANTS FROM HIGHER INCOME
ELIGIBLE FAMILIES

To facilitate the selection of families for public housing, PHAs maintain waiting lists for applicants. Difficulties may be experienced in attracting higher income eligible families to public housing, and therefore, in achieving the required income mix, because of the small numbers of higher income applicants on existing waiting lists. We reviewed income characteristics of applicants on the waiting lists of four of the six PHAs we visited and found these PHAs did not have applicants with incomes sufficient to achieve the income mix required. Income distributions for the waiting lists at the four PHAs is compared to the income of the eligible community in their areas of operation in the table on page 27.

As shown, between 62 and 74 percent of all applicants on the waiting lists had annual gross incomes of \$3,999 or less while between only 32 to 45 percent of the populations served by the PHAs had annual gross incomes of \$3,999 or less. Officials of the four PHAs told us that the required income mix could not be obtained from existing waiting lists.

Percent on PHA Waiting Lists as Compared to Eligible Community Served

Gross income range	Pittsburgh		Philadelphia		Baltimore		Boston	
	Waiting list	Community	Waiting list	Community	Waiting list	Community	Waiting list	Community
Under \$2,000	11	21	8	20	18	19	3	15
\$2,000 to \$3,999	63	24	54	21	47	19	60	17
\$4,000 to \$5,999	17	22	31	20	18	19	22	21
\$6,000 to \$7,999	8	18	4	18	11	18	9	18
\$8,000 to \$11,999	1	14	2	19	5	23	6	26
\$12,000 and over	0	0	1	2	0	2	0	4

One alternative is for PHAs to implement activities to identify and attract higher income poor families. In this regard, HUD's public housing handbook addresses the alternative of establishing outreach activities. The handbook states:

"In order for a PHA to carry out its policies related to housing families with a broad range of incomes, as required by 24 CFR Part 860, Subpart B, and to reach families within the PHA's jurisdiction who have traditionally not participated in the public housing program, it may need to engage in an outreach effort."

None of the PHAs we visited had conducted activities to attract higher income poor families. HUD headquarters and field officials we contacted were not aware of any PHAs that had implemented such activities.

Various characteristics of families waiting for housing in some of the PHAs we visited are shown in appendix V.

DIFFICULTIES IN IMPLEMENTING INCOME MIX REQUIREMENT ON A PROJECT-BY-PROJECT BASIS

Many PHAs manage more than one housing project. For example, the New York City Housing Authority managed 173 federally supported housing projects containing 96,148 dwelling units as of December 31, 1977. PHAs face a difficult task in obtaining families with a broad range of low incomes on an individual project basis since some applicants refuse to move into certain projects because of their poor physical condition and/or geographical location. This problem is compounded in that PHAs are permitted to give applicants individual project preferences.

The broad range of income legislation requires PHAs to implement the legislation on a project-by-project basis rather than on a PHA-wide basis. To do otherwise may result in continuing or developing concentrations of very low income families at certain projects.

The physical condition of individual housing projects varies, depending on when the projects were constructed and how well they have been maintained. All six of the PHAs we visited allowed housing applicants to list where they wanted to live and either accept or reject the projects offered. When PHAs grant location choices to tenants, the task of obtaining the desired economic mix of tenants on a project basis is made more difficult.

We reviewed two older New York City Housing Authority projects to determine what success the authority had in getting higher income eligible applicants to move into the two projects. Our analysis of move-ins for the year ended March 31, 1978, showed that a smaller percentage of higher income eligible applicants moved into the two projects than for all New York City Housing Authority projects. For one project, the authority housed 31 percent fewer higher income eligible tenants than was housed authority-wide. For the other project, the authority housed 59 percent fewer higher income eligible tenants than was housed authority-wide.

GIVING PRIORITY IN HOUSING TO CERTAIN FAMILIES

HUD regulations permit PHAs to adopt housing preferences for certain applicants. For example, PHAs have extended priority in housing for emergencies, including families living in substandard housing.

All six of the PHAs we visited were authorized and gave priority in housing to certain families applying for public housing. Priority treatment was generally given to veterans and to persons displaced by governmental action or fires.

Giving priority in housing regardless of income range may make the legislative requirement of housing a broad range of low-income persons more difficult to achieve. For example, the New York City Housing Authority made 2,110 priority emergency placements without consideration to family income in 1977. This was 17.7 percent of the 11,898 families placed in authority-managed city, State, and Federal housing units.

CHAPTER 4

CONCLUSIONS, RECOMMENDATIONS,

AND AGENCY COMMENTS

CONCLUSIONS

The financial condition of some PHAs has continued to deteriorate despite Federal legislation enacted 5 years ago aimed at improving their economic and social conditions. PHAs have not widely implemented the legislative requirement proposing that a greater share of public housing be provided to higher income eligible households capable of paying higher rents. While it may take PHAs some years to achieve the full effect of increased rental revenues envisioned by the legislation, the legislation has the potential for greatly increasing PHAs' revenues and reducing their dependence on subsidies.

No simple solution exists to the problem of motivating PHAs to increase rental revenues by housing a broader economic range of eligible families in public housing. Formidable problems of a moral and administrative nature must be overcome before this requirement is fully accepted nationwide. It appears evident, however, that little or no action by HUD will result, for the most part, in continued PHA financial deterioration and increasing dependence on Federal subsidies.

Despite problems facing PHAs in implementing the legislative requirement of housing a broader range of eligible families in public housing, the New York City Housing Authority, the largest in the Nation, has begun to select applicants to achieve this objective. Authority officials believe that significant progress will be made in achieving a broader economic mix of tenants within the next 5 years.

HUD needs to make a more vigorous commitment to succeed in placing in public housing a broad range of eligible families through the guidance and monitoring it provides PHAs. Also HUD could overcome opposition by some PHAs to housing higher income eligible families in preference to very low income by considering the availability of other HUD-supported programs in meeting the housing needs of the very low income. In areas where no other HUD-supported housing exists, the Congress could help overcome the opposition by amending the legislation to permit the Secretary of HUD to waive the requirement.

RECOMMENDATIONS TO HUD

To successfully implement the legislative requirement of housing a broad range of low-income families and to reduce the need for Federal subsidies to support the operations of public housing, we recommend that the Secretary of Housing and Urban Development:

- Give public housing applicants who are not housed because of higher income eligible families priority consideration for housing in other HUD programs. While this recommendation may not result in reducing overall Federal expenditures for subsidized housing, it would help remove a major obstacle to implementing the legislative requirement nationwide and improve the financial solvency of public housing agencies.
- Reemphasize to PHAs the legal requirements for housing a broad range of eligible families, and provide detailed guidance to them on how to establish and implement a system of housing priorities in accord with the legislative requirement. To be effective, such guidance should require PHAs to establish goals to begin and complete implementation and initiate outreach efforts to identify higher income eligible families where needed.
- Conduct training sessions for PHAs on how to establish and implement an income mix tenant selection system using the New York City Housing Authority's method as one way of implementing the legislative requirement.
- Monitor PHAs' compliance with the legislative requirement.
- Require that a plan for nationwide implementation be developed, and an evaluation be prepared periodically on the status of such implementation. The evaluation should include information on (1) the number of PHAs which have begun to implement the legislative directive and those that have not, (2) the number of PHAs which have achieved a tenant composition representative of the eligible community they serve, and (3) estimates of the additional revenues which have not yet been realized and the time period needed for achieving these revenues.

RECOMMENDATION TO THE CONGRESS

We also recommend that the Congress amend the legislative requirement to give the Secretary of HUD the authority to waive the broad range of low-income requirement for PHAs located in areas not served by other HUD programs. We are available to assist the appropriate committees in preparing the necessary amending language upon request.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report (see app. I), HUD agreed with our recommendations and outlined steps it would take to address the findings in this report.

HUD pointed out, however, that the initiatives it plans to take in response to our recommendations cannot guarantee the universal attainment of housing families with a broad range of incomes in every public housing project. So long as assisted housing resources fall short of meeting the needs of all poor families, any shift in the segment of the eligible population served by public housing will meet resistance because it limits the access of families who are perceived to be the neediest of public housing. HUD also said that the Congress is considering legislation that would confer priority status on public housing applicants who reside in substandard housing or are involuntarily displaced, and that this legislation may impede efforts to achieve a broad range of incomes in public housing.

Nevertheless, HUD said it is committed to the attainment of the income-range objective not only because it is required to do so by law but also because of its promise of a favorable impact on the financial and social stability of public housing projects. In responding to our recommendations, HUD said it plans to:

- Provide more explicit technical advice to PHAs in the use of the section 8 program to support the achievement of income-range objectives in public housing. There is a tendency for PHAs (especially larger ones) to operate the programs from separate organizational units and to ignore the possibility of a coordinated approach to meeting the goals of both programs. HUD said the proposed revisions to the Public Housing Occupancy Handbook will include a discussion of the use of a priority for families who cannot be served in public housing and the advantages of merging waiting lists for the two programs.
- Issue a new chapter of the Public Housing Occupancy Handbook that will (1) include advice on attracting higher income families to the program and assigning families to specific projects in multiproject operations and (2) equip its field office staff with the techniques for analyzing a project's ability to house a broad range of incomes and the criteria for determining a "reasonable time" to accomplish a specific goal for the project.
- Prepare and distribute to its field offices a training package to assist PHAs in implementing tenant selection policies required by HUD. The package will be drawn from previous training sessions as well as the experience of successful PHAs.

--Incorporate specific instructions on the analysis of the tenant selection process into the "Procedures for Occupancy Audit" by December 31, 1979, and explore the development of a system which will permit the audit results to be aggregated at headquarters level to support more effective program evaluation.

--Explore the possibility of a nationwide implementation plan for the achievement of tenant selection goals. However, HUD expressed serious doubts as to the feasibility of such a plan because of the difficulties of predicting turnover characteristics of projects and housing applicants and therefore estimates of revenues that could be realized.

While HUD outlined certain actions discussed above that it would take to provide an alternative (section 8 program) to public housing applicants who are not housed because of higher income eligible families, it said it would be reluctant to mandate a priority for admission to section 8 housing for these families. HUD pointed out that it would be unwise to adopt policies that would result in the concentration of the lowest income families in section 8 housing whose incomes are only slightly higher than those included in public housing. HUD also expressed doubt that it had the authority under the law to adopt such a preference because one of the basic objectives of section 8 housing is to promote economically mixed housing.

However, HUD said it envisioned the section 8 program as supporting its efforts to achieve a broad range of incomes in two respects. If the section 8 program serves 30 percent very low income families as required by law, it will be able, because it is expanding, to serve many of those families whose admission to public housing will have to be deferred because their income is too low. Also, HUD said it expects that PHAs will be able to develop the capacity to refer some of the families they are unable to serve to section 8 projects.

It should be noted that our basic recommendation is that HUD give priority consideration in other HUD programs to public housing applicants whose admission must be deferred. In a draft of this report we used the section 8 program only to illustrate one means of helping to house such families. HUD operates several housing programs for low-income families. We believe that the actions HUD plans with regard to the section 8 program will help the situation, but that HUD should also consider providing housing priorities to the families in other HUD-supported programs.

In the draft of this report we also suggested that HUD should propose to the Congress revisions in the legislative requirement to give the Secretary of HUD authority to waive

the requirement for project-by-project implementation and authorize authoritywide implementation where needed to achieve an overall income mix. HUD pointed out that permitting PHAs to meet their income range goals on a PHA-wide basis would probably result in severe stratification by projects within the community. PHAs would be likely to steer higher income families to the more desirable projects while the poorest families would have to settle for what they could get.

HUD also said that a more effective approach to inducing higher income families to accept dwellings in less desirable projects is for the PHA, with support of HUD, to use every means at its disposal to make those projects more attractive and to overcome their bad image in the community. Various means pointed out by HUD which PHAs could adopt to make projects more attractive include modernization, improved maintenance and security, and the Public Housing Urban Initiatives Program.

We agree with HUD that a more effective approach to this problem would be to make projects more attractive and have not included our proposal as a recommendation in this report. We agree also that the program and activities identified by HUD to accomplish this could improve the desirability of projects if properly implemented.

However, as discussed previously, we are recommending that the Secretary of HUD be given authority to waive the legislative requirement for PHAs located in areas not served by other HUD programs.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D.C. 20410

July 12, 1979

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING—FEDERAL HOUSING COMMISSIONER

IN REPLY REFER TO:

Mr. Henry Eschwege
 Director
 Community and Economic Development
 Division
 United States General Accounting Office
 Washington, D.C. 20548

Dear Mr. Eschwege:

Your letter of June 11, 1979 to Secretary Harris transmitting a proposed report to the Congress entitled: "Nationwide Implementation of Legislative Requirement Could Reduce Public Housing Agencies Need for Federal Funds" has been referred to my office for reply.

I will respond to the recommendations in the order that they are presented in the report.

Recommendation No. 1: The Secretary of HUD should give public housing applicants, who are not housed because of higher income eligible families, housing priorities in other HUD programs such as the Section 8 leased housing program. While this recommendation may not result in reducing overall Federal expenditures for subsidized housing, it would help remove a major obstacle to nationwide implementation of the legislative requirement and improve the financial solvency of public housing agencies.

Reply: I would be reluctant to mandate a priority for admission to Section 8 housing for those families whose admission to public housing must be deferred to achieve the income-range goals adopted by public housing agencies (PHAs). I agree that the continued growth of the Section 8 program will help meet the housing needs of many of the lowest income families who the public housing program will be unable to serve, but I believe that it would be unwise to adopt policies that would result in the concentration of the lowest income families in Section 8 housing.

In addition, I doubt that HUD has the authority under the law to adopt such a preference. One of the basic objectives of Section 8 of the United States Housing Act of 1937 (the Act) is to promote economically-mixed housing. The objective would not be met if the lowest income families were concentrated in Section 8 projects. In your letter report of October 20, 1978 to the Secretary you raised the same concern in your discussion of HUD's implementation of the provisions of Title I of the Housing and Community Development Act of 1974.

The apparent range of incomes of the families currently entering the Section 8 program is only slightly higher than that experienced in public housing. Consequently, any HUD-directed effort to increase the level of lowest income families in Section 8 housing seems inappropriate.

I envision the Section 8 program supporting our efforts to achieve a broad range of incomes in two respects. The most important will be the increase in the availability of assisted housing for families in the eligible range on a nationwide basis. If the program serves 30 percent very low-income families as required by the Act, it will be able, because it is expanding, to serve many of those families whose admission to public housing will have to be deferred because their income is too low. In addition, in many localities, I expect that PHAs will be able to develop the capability to refer some of the families they are unable to serve to Section 8 projects. In neither instance is a HUD-mandated priority for the lowest income families necessary or in the best interests of the program.

On the other hand I believe that HUD is obligated to provide more explicit technical advice to PHAs in the use of the Section 8 program to support the achievement of income-range objectives in public housing. There has been a tendency for PHAs (especially larger ones) to operate the programs from separate organizational units and to ignore the possibility of a coordinated approach to meeting the goals of both programs. Our proposed revisions to the Public Housing Occupancy Handbook (see the response to Recommendation No. 2, below) will include a discussion of the use of a priority for families who cannot be served in public housing and the advantages of merging waiting lists for the two programs.

Recommendation No. 2: The Secretary of HUD should reemphasize to housing agencies the requirements of law for housing a broad range of eligible families and provide detailed guidance to them on how to establish and implement a system of housing priorities in line with the legislative requirement. To be effective, such guidance should require agencies to establish timeframe goals to begin and complete implementation and initiate outreach efforts for higher income eligible families where needed.

Reply: I believe that the draft report somewhat understates the efforts that HUD has made to further the implementation of the income range requirements of the Act. Among them are the following:

1. In November and December 1975, immediately after the publication of 24 CFR 860, Subpart B, which implements the income-range requirements of the Act, Headquarters conducted training for Occupancy Specialists from all of its Field Offices which concentrated heavily on the attainment of the income-range goals.
2. In January 1977 HUD published regulations governing the development of new public housing which, in effect, required the attainment of occupancy by families with a broad range of incomes in new public housing projects at the time of initial rent-up.
3. In May 1977 HUD developed the income distributions of eligible households for all counties and for cities with populations over 25,000. Distribution of this information was not delayed by a "moratorium," as suggested in the draft report, but was delayed because the method by which the information was derived from census data had not been devised.
4. From April through June 1977 HUD Headquarters conducted training for Management and Occupancy Specialists in connection with the development of new public housing projects. The training, which involved specialists from all of the HUD Field Offices, was directed specifically toward achieving occupancy by families with a broad range of incomes in both new and existing projects.
5. In October 1978 HUD issued the Public Housing Occupancy Handbook (7465.1 REV). This Handbook reaffirmed the Department's commitment to the achievement of the statutory objective and provided technical advice to the PHAs and Field Offices to help attain it.
6. In its operating plan for the fiscal year ending September 30, 1979, Headquarters established a goal requiring the Regional Offices to assure the adoption of tenant selection plans consistent with the requirements of 24 CFR Part 860 by all PHAs. Progress under this objective is monitored monthly through the Headquarters Executive Management Report System.

7. In December 1978 and January 1979 HUD again conducted training for the Field Office Occupancy Specialists. Over half of each one-week session was devoted to public housing tenant selection plans.

Nevertheless, it is clear that many PHAs, especially the larger ones whose projects are typically located in older inner-city neighborhoods, have either failed to adopt these policies or have not succeeded in implementing them. Consequently, we expect to issue a new chapter of the Public Housing Occupancy Handbook that will:

1. Include advice on attracting higher-income families to the program and assigning families to specific projects in multi-project operations.
2. Equip the Field Office staff with the techniques for analyzing a project's ability to house a broad range of incomes and the criteria for determining a "reasonable time" to accomplish a specific goal set for that project.

Recommendation No. 3: The Secretary of HUD should conduct training sessions for housing agencies on how to establish and implement an income mix tenant selection system using the New York City Housing Authority's method as one way of implementing the legislative requirement.

Reply: Headquarters will prepare and distribute to the Field Offices a training package to assist the PHAs in implementing tenant selection policies required by HUD. The package will draw heavily from the material used in our previous training sessions as well as the experience of successful PHAs. If necessary, a Departmental Operating Plan objective will be established to assure that the training is conducted in fiscal year 1981.

Recommendation No 4: The Secretary of HUD should effectively monitor housing agency compliance with the legislative directive.

Reply: There are basically two methods available to monitor PHA compliance with HUD tenant selection requirements. The first, at the Headquarters level, involves aggregating the PHAs' reports on families moving into public housing at the project level and comparing that data with the project's current population and, if feasible, with the income distributions in the community.

At present, however, our system for collecting data on public housing tenants is undergoing extensive revision. It is unlikely that we will be able to perform analysis at this level with any degree of confidence for at least a year. The ability to analyze income distributions is one of the objectives of our revisions to the system.

The second method is to review the PHAs' records during the course of occupancy audits which are required to be conducted by HUD field staff every two years. We expect to have incorporated specific instructions on the analysis of the tenant selection process into the Occupancy Audit procedure by December 31, 1979. We will also explore the development of a system which will permit the audit results to be aggregated at the Headquarters level to support more effective program evaluation.

Recommendation No. 5: The Secretary of HUD should require that a plan for nationwide implementation be developed and a report be prepared annually on the status of such implementation. The report should include information on the number of housing agencies which have begun to implement the legislative requirement and those that have not, the number of housing agencies which have achieved a tenant composition representative of the eligible community they serve and estimates of the additional revenues which have not yet been realized and the time period needed for achieving these revenues.

Reply: We will explore the possibility of a nationwide implementation plan for the achievement of tenant selection goals but we have serious doubts as to its feasibility, especially in regard to being able to estimate the revenues that could be realized.

The main impediment to estimating the potential increase in income that could result from housing families with a broad range of incomes is the difficulty of predicting the turnover characteristics of any given project and the characteristics of the applicants available to fill the vacancies. The turnover in many public housing projects, as demonstrated by the figures cited in the draft report, is very low. In addition, the turnover does not occur uniformly among the occupants of a project. The fact that a project has a 10 percent turnover rate does not mean that it will have a completely new population in 10 years. We suspect that the turnover is higher among higher-income families, which would seriously distort any attempt to predict the income-gain resulting from the tenant selection policies.

Recommendation No. 6: The Secretary of HUD should propose revisions to the legislative requirement to the Congress to give the Secretary of HUD the authority to waive the legislative requirement for project-by-project implementation and authorize agency-wide implementation where needed to achieve an overall income mix.

Reply: I could not recommend to the Secretary that she introduce legislation permitting the implementation of the income-range goals on a PHA-wide rather than a project-by-project basis. In addition to reducing the demand for operating subsidy, the present legislation is directed toward avoiding the concentration of the lowest-income families in a particular location because such concentrations are perceived as contributing to the serious social problems that have plagued the public housing program. Permitting PHAs to meet their income range goals on a PHA-wide basis would be very likely to result in severe stratification by project within the community. PHAs would be likely, in order to meet their goals, to steer higher-income families to the more desirable projects while the poorest families would have to settle for what they could get.

In my opinion, a more effective approach to inducing higher-income families to accept dwellings in less desirable projects is for the PHA, with the support of HUD, to use every means at its disposal to make those projects more attractive and to overcome their bad image in the community. In addition to modernization, improved maintenance and security, PHAs may adopt:

1. ceiling rents related to the market value of the project;
2. a definition of income taking into consideration the employment-related expenses of the working poor; and
3. bedroom-size assignments that allow families extra space in hard-to-rent projects.

Furthermore, we anticipate that the Public Housing Urban Initiatives Program will not only improve the projects upon which it is focusing, but will provide the knowledge and experience required for the improvement of other hard-to-rent projects.

Conclusion: The initiatives discussed in the preceding responses cannot guarantee the universal attainment of the goal of housing families with a broad range of incomes in every public housing project. So long as the assisted housing resources fall short of meeting the needs of all

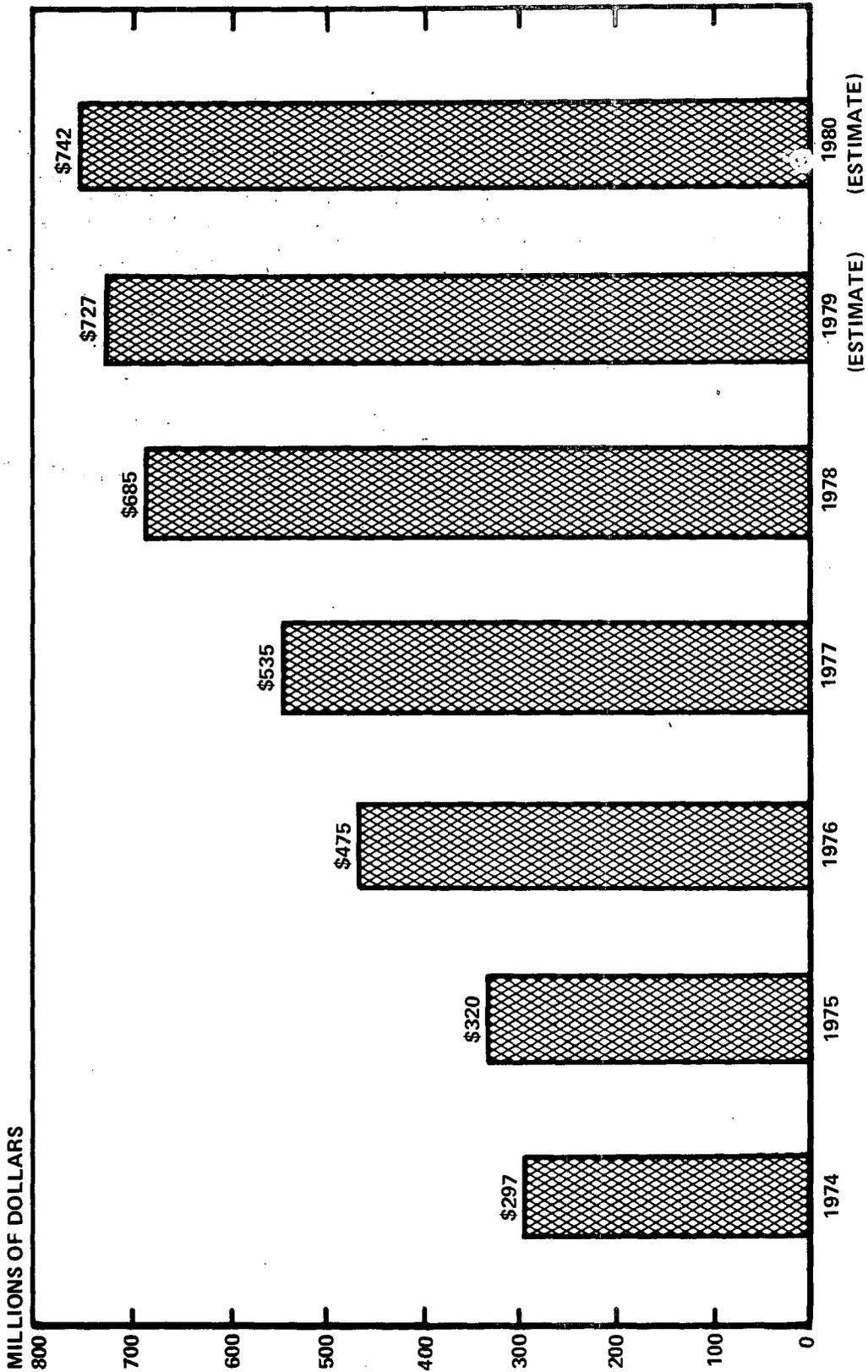
poor families, any shift in the segment of the eligible population served by public housing will meet powerful resistance because it limits the access to public housing of those families who are perceived to be the neediest. Also, the Congress is considering legislation that would confer priority status on public housing applicants who reside in substandard housing or are involuntarily displaced. If this legislation is adopted, it is likely that the effort to achieve occupancy by families with a broad range of incomes in public housing will be impeded. Nevertheless, HUD is committed to the attainment of the income-range objective, not only because it is required to do so by law but also because of its promise of a favorable impact on the financial and social stability of the public housing projects.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence B. Simons".

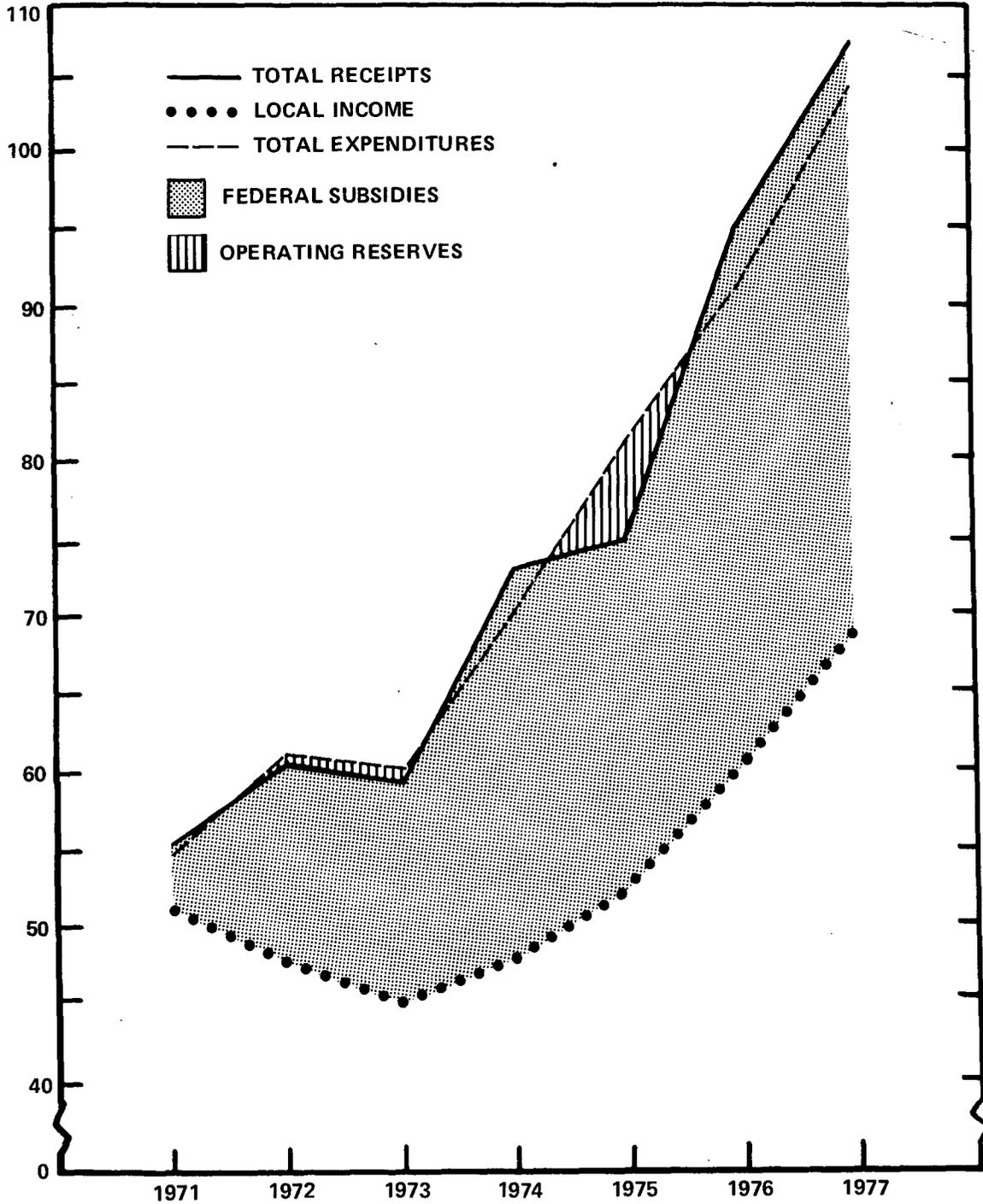
Lawrence B. Simons
Assistant Secretary

GROWTH OF OPERATING SUBSIDIES
FROM FISCAL YEARS 1974-1980



NATIONAL TREND OF PHA RECEIPTS AND EXPENDITURES

DOLLARS PER UNIT MONTH



SAMPLE CHARACTERISTICS OF FAMILIES APPLYING

FOR LOW-RENT PUBLIC HOUSING

DURING FISCAL YEARS ENDING IN CALENDAR YEAR 1977

Characteristics	PHA		
	Baltimore	Boston	Philadelphia Pittsburgh
Total applications	10,106	3,000	19,000
Total sampled	180	233	100
Head of household data:			
--Average age (years)	38	51	39
--Sex (percent) Male	18	27	24
Female	82	73	76
--Race (percent) Black	95	37	-
White	5	49	-
--Elderly (percent)	23	51	14
Average family size	3.2	2.2	3.4
Family income data:			
--Average gross income	\$3,833	\$4,150	\$3,489
--Average income for rent purposes	\$2,948	\$3,514	\$3,059
Average monthly rent	\$62	\$72	\$64
Families receiving public assistance (percent)	62	42	76
Families with earned income (percent)	29	14	13
			4,630
			224
			44
			24
			76
			71
			25
			39
			2.3
			\$3,576
			\$2,956
			\$61

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