United States General Accounting Office

GAO Transition Series

November 1988

Housing and Urban Development Issues

GAO/OCG-89-22TR

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-158195

November 1988

The President of the Senate
The Speaker of the House of Representatives
The Secretary-designate of Housing and Urban Development

This report is one of a series that summarizes major policy, management, and program issues facing agency heads in the new administration. Through our work in these areas, we have identified many concerns—some relatively new, others long-standing.

This report on the Department of Housing and Urban Development (HUD) describes our concerns about two important issues that need closer attention—low-income housing and homelessness. If these issues are not addressed, the Secretary of Housing and Urban Development can expect (1) continuing decreases in the supply of rental housing that is available and affordable to low-income people and (2) a growing national homelessness problem. In this report, we offer a wide range of observations and suggestions on how the Secretary of Housing and Urban Development can best address these concerns.

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Giving Priority to the Availability and Affordability of Low-Income Housing

The supply of rental housing that is available and affordable to low-income people is shrinking. Housing built with government subsidies in the 1960s is becoming eligible for sale or conversion to upscale condominiums and developments; public housing is deteriorating and underfunded; and tax incentives for encouraging private investment in low-income housing have been changed. At the same time, the demand for such housing is increasing, as a greater proportion of the nation's population falls below the poverty line. Two indicators suggest the magnitude of the problem:

- Over 24 million households have excessive rent burdens or live in crowded or substandard housing, as defined by HUD.
- Between 1975 and 1983, the population of very low-income rental households—those earning 50 percent or less of an area's median family income and thus least able to afford housing—increased from about 9.3 million to an estimated 12.2 million.

Retaining Private Low-Income Housing

HUD needs to encourage continued private investment in low-income housing, focusing on individual markets to determine the amount of additional federal incentives needed.

Over the next 15 years, over half of the 1.9 million privately owned and federally subsidized housing units available in fiscal year 1985 could be withdrawn from the low-income rental market, as restrictions limiting their use to low-income rental properties expire. This housing was financed in the 1960s with federal programs that provided below-market interest rate loans and mortgage insurance on riskier projects. In addition, substantial tax benefits were available to attract equity capital, and rental assistance contracts guaranteed a rental income equal to the fair market rent.

As federal subsidy and mortgage prepayment restrictions begin to expire, private owners of this low-income housing can choose to maintain it as a low-income housing resource or possibly find more advantageous alternatives. Recognizing this problem, the Congress included interim measures in the Housing and Community Development Act of 1987 to minimize losses from the federally assisted inventory. These measures include incentives to increase owners' rates of return, restraints on their voluntary prepayment of mortgages, and provisions supporting the purchase of projects by nonprofit or public agencies.

Because the current inventory of this housing is located in different housing markets, we cannot predict the amount of additional federal incentives necessary to retain private investment in this housing. Projects located in strong markets, which would support higher rents or alternative uses of property, have a high potential for being withdrawn from the inventory of low-income housing. To avoid loss of this housing, the government may have to offer owners very deep federal subsidies. Conversely, projects located in weaker markets may require little, if any, additional federal subsidy. Through further study of the potential loss of assisted housing in the various markets, the Congress and the President will be in a better position to decide what measures and how much federal spending should be devoted to this area.

Preserving Public Housing

HUD needs to consider the cost-effectiveness of preserving public, low-income housing.

Public housing—the nation's largest single source of low-income housing—is in serious disrepair, affecting living conditions of more than 1.3 million families. Although the federal government has spent about $8 billion in repair and modernization of this housing since 1975, backlogged work is expected to cost about $20 billion, according to HUD's 1987 study of the problem. Some of the larger urban public housing agencies, whose units may account for as much as 15 percent of the low-income rental stock in their locations, have the greatest needs. The Council of Large Public Housing Authorities has estimated that among the 35 largest agencies, approximately 140,000 family units are in such poor condition that they would require an average of $28,000 per unit to refurbish, for a total cost of $3.8 billion.

In addition to this immediate need, there is the long-range issue of whether and how to maintain the existing inventory of public housing projects, as these units experience normal physical deterioration and become obsolete over time. It is possible that meeting these additional needs alone could cost billions of dollars over the next 10 to 15 years.

Seeking Compatible Tax Policy

HUD should continually monitor, and attempt to influence, tax policy to ensure that it is achieving its goals of encouraging investment in low-income housing programs.

While the federally subsidized stock of rental housing is a vital resource for low-income families, the majority of these families live in unsubsidized, private housing. The loss of housing opportunities in this area depends on the environment for investing or reinvesting in rental housing versus other investment opportunities. This environment is heavily influenced by federal tax policies that can either complement or detract from other government housing policies and programs. As tax policy affecting the supply of low-income housing evolves over the next decade, HUD will continually need to coordinate its housing assistance programs with tax programs.

The Tax Reform Act of 1986 replaced a number of long-standing tax incentives for rental housing with a single tax credit to encourage new construction, rehabilitation, and preservation of low-income housing. Aware of the importance of the new tax credit both to national housing policy and to the specific housing programs it administers, HUD has initiated several studies to determine the credit's effectiveness.

In addition, tax legislation was introduced in the 100th Congress to facilitate the retention of low-income housing. Although this legislation has not been enacted, we believe that similar future legislation is needed to provide for improved coordination of tax policies with housing policies. This legislation should contain provisions that would strengthen (1) certain targeting provisions to ensure that housing projects provide the maximum possible assistance to low- and moderate-income households, consistent with the objectives of the direct housing assistance programs; (2) cost-control provisions aimed at maximizing the number of units assisted while minimizing costs; and (3) accountability and oversight by requiring a mechanism to evaluate the impact of tax policy on low-income housing.

Providing Benefits Through Both Vouchers and Certificates

Rather than continue separate housing voucher and certificate programs to assist low-income families, the Congress should consolidate the best features of both programs into one program aimed at providing equitable, cost-effective support to those with housing needs.

The voucher and certificate programs provide subsidies to low-income households to help them obtain decent, safe, and affordable rental housing on the private market. Although their goals are the same, the costs and benefits of these two programs differ. By reconciling these differences, the Congress could create a unified demand-based subsidy that would equalize benefits to low-income households.

Under both vouchers and certificates, public housing authorities pay rent subsidies directly to landlords on behalf of low-income tenants. However, vouchers are more costly than certificates, principally because the vouchers' subsidies are based on HUD-established rent standards. In contrast, certificates' subsidies are based on actual rents that families pay, up to the same rent standard. Vouchers provide higher subsidies than certificates when families rent units for less than the HUD-established rent standards. Because of this difference, vouchers are able to assist fewer low-income households than certificates, given the same budget allocation.

Using actual cost information from HUD's voucher demonstration program, we project that HUD's $3 billion budget request (fiscal year 1989) for the voucher program could serve 9,500 fewer (6 percent less) households than could be aided by certificates. An additional $208 million would be needed if the voucher program were to serve the same number of households as the certificate program.

Solving the Homelessness Problem

While the McKinney Act addresses the immediate needs of the homeless, long-term solutions are needed that take into account the diversity of the homeless population and the array of contributory causes.

As many as 3 million people in the United States may be homeless, and most studies agree that the number is growing rapidly, especially among families with children. Many of the homeless, often single women with children, cannot find affordable housing. Many others are homeless because of substance abuse or mental illness. There is little agreement as to how many people comprise each homeless category.

To address the problems of the homeless, the Congress enacted the Stewart B. McKinney Homeless Assistance Act, authorizing a number of federal programs primarily directed at alleviating the immediate needs of the homeless. Authorized funding is about $500 million annually; HUD receives the bulk of these funds.

Although the McKinney Act formally recognizes the homelessness problem as a national issue and provides funds to alleviate the immediate needs of the homeless, it does not provide long-term solutions or comprehensive approaches. Homeless people are sociologically and economically diverse and often need support services—education, job training, or psychological and drug counseling—as well as housing. Given this complex problem, HUD needs to provide leadership in identifying the types of federal initiatives that would be successful. Such initiatives need to be based on thorough analyses of the population being served and analyses of the effectiveness of federal, state, local, and private programs that are assisting the homeless.

The McKinney Act required GAO to issue status reports in 1987 and 1988 regarding the use of the act's appropriated funds. Our 1987 report found that HUD and the Federal Emergency Management Agency experienced difficulties in meeting legislated milestones for disbursing funds and publishing program regulations. We anticipate continuing congressional interest as concerns grow about the extent and causes of homelessness.

Related GAO Products

Giving Priority to the Availability and Affordability of Low-Income Housing	Rental Housing: Potential Reduction in the Privately Owned and Federally Assisted Inventory (GAO/RCED-86-176FS, June 16, 1986).
	Role of Tax Policy in Preserving the Stock of Low-Income Rental Housing (GAO/T-RCED-88-22, Mar. 3, 1988).
	Housing Programs: Funding Approach for HUD's Section 8 Certificate Program Needs Changing (GAO/RCED-88-136, Apr. 18, 1988).
	Rural Rental Housing: Impact of Section 515 Loan Prepayments on Tenants and Housing Availability (GAO/RCED-88-15BR, Feb. 11, 1988).
Solving the Homelessness Problem	Homelessness: Implementation of Food and Shelter Programs Under the McKinney Act (GAO/RCED-88-63, Dec. 8, 1987).
	Homeless Mentally Ill: Problems and Options in Estimating Numbers and Trends (GAO/PEMD-88-24, Aug. 3, 1988).

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