

TIME FOR NEW MANAGEMENT AT AMERICA'S TROUBLED PUBLIC HOUSING PROJECTS

(Updating *Backgrounder* No. 1024, "Improving America's Housing by Shutting Down HUD," March 16, 1995.)

In response to efforts by the Clinton Administration and some Members of Congress to reform America's failed public housing program, public housing managers from around the country have been flooding into Washington in a last-ditch effort to preserve the status quo. Whether this aggressive lobby is successful in preserving a costly system that helps undermine communities will be a clear test of this Congress's willingness to turn bold talk into action by enacting real reforms in the nation's troubled low-income housing program.

No symbol better reflects the federal government's failed low-income housing policy than the many dilapidated, crime-ridden public housing projects that blight America's cities. Created in the 1930s as temporary shelters for the unemployed and the working poor, many of these projects today effectively segregate the poor and minorities into hopeless communities with little or no chance of escape. Aggravating this is the incompetent and sometimes corrupt management of public housing—management that generally has succeeded in thwarting reform at both the federal and local levels for two decades.

Although public housing has long been recognized as costly and inefficient, its managers and congressional supporters have been able to sustain its position as the mainstay of America's housing policy by exploiting the deceptive notion that it is the only source of affordable housing. Numerous official studies by both Republican and Democratic administrations, however, have found that there is in fact an ample and adequate supply of affordable rental housing available from the private sector throughout the United States.¹

Moreover, as these and other studies have revealed, there is nothing *affordable* about government-built housing: new public housing costs more than twice as much as private sector-based vouchers per needy household served. Moreover, vouchers are much less expensive than existing public housing.² The only cri-

1 See, for example, "HUD Reinvention: From Blueprint to Action," U.S. Department of Housing and Urban Development, March 1995, p. 35; "Priority Housing, Problem of Worst Case Needs 1989, A Report to Congress," U.S. Department of Housing and Urban Development, 1991; "Location of Worst Case Needs, Late 1980s, A Report to Congress," U.S. Department of Housing and Urban Development, December 1992; and Carl F. Horowitz, "Housing Bills Tackle Non-Existent Crisis," Heritage Foundation *Issue Bulletin* No. 199, July 20, 1994.

2 Ronald D. Utt, "Improving America's Housing by Shutting Down HUD," Heritage Foundation *Backgrounder* No. 1024,

sis in America's supply of affordable housing is the gross mismanagement by the many big city public housing authorities (PHAs) that control nearly 14 percent of the public housing stock—and whose success in blocking every effort to reform them and empower tenants is eloquent testimony to their influence with past Congresses.

Dragging with them their frightened tenants, public housing managers have come to Washington to seek protection from reforms proposed by the White House and some Members of Congress. Congress should ignore this pressure and shift federal housing funds from local bureaucrats directly to those in need by tying all low-income housing assistance to housing vouchers. This would force public housing authorities to compete with other housing providers for dollars controlled by their tenants.

Housing and Urban Development (HUD) Secretary Henry Cisneros proposed this reform in President Clinton's FY 1996 budget, recognizing that many PHAs are grossly inefficient because they face no competition in managing their operations. As monopolists with vulnerable "customers," and operating with substantial funds from Congress and limited accountability, many PHAs have little incentive to provide quality services at reasonable costs. The result: some of the worst housing and most dangerous neighborhoods in America are sustained by generous taxpayer subsidies.

Secretary Cisneros's reform proposal would end direct federal payments to public housing authorities and substitute indirect support by way of vouchers provided directly to tenants. In turn, tenants could use these vouchers to pay rent to the PHA, to rent better quarters elsewhere, or to hire new managers. This would force PHAs to do what their private sector counterparts have to do every day: hold on to the tenants they have and attract new ones to fill vacancies by providing a decent environment within a fixed budget.

Not surprisingly, HUD's proposal that PHAs should compete for tenants armed with vouchers has drawn intense opposition from housing authorities and their supporters in Congress. Having possessed monopoly privileges and their attendant financial benefits for so long, PHA managers are understandably reluctant to have their funding based upon competition and satisfied clients. Instead, they have chosen to test the limits of their clout by countering with the proposal that Congress provide each of them with a direct block grant to be used at each PHA's discretion. Congress should reject such self-serving proposals and quickly establish a system that harnesses the power of competition to force these managers to meet adequate levels of performance.

Secretary Cisneros's plan to empower tenants with vouchers is one way to do this, but his proposal envisions a six-year implementation period and with the worst public housing projects the last to be affected. In consideration of the long-suffering tenants, however, the worst situation should be addressed first, and swift action should be taken to resolve what is literally a life and death situation for many of these tenants. Specifically, for those 92 public housing authorities formally designated by HUD as "troubled" but which control thousands of public housing units in such cities as Philadelphia, New Orleans, Washington, D.C., Detroit, Kansas City, Chicago, and Chester, Pennsylvania, to name just a few, HUD should use the powers it has and:

- ✓ **Immediately dismiss** the existing PHA management,
- ✓ **Temporarily take over** the day-to-day operations of the projects, and
- ✓ **Implement the procedures** of the federal competitive contracting process to find permanent replacements from among the thousands of successful and experienced private sector property management companies.

Such contracts should be of relatively short duration, no more than two to three years, and re-competed at expiration to maintain the pressure on existing managers.

It is time for HUD and Congress to stop complaining about these incompetent public housing authorities and use the powers they have to resolve the problem now. Those PHAs identified as disasters today were disasters last year and the year before that. They have responded to HUD's empty threats and half-hearted remedial actions with nothing but contempt. If current law prevents HUD from taking effective remedial action, Congress should make the legislative changes necessary to protect both the health and safety of beleaguered tenants and the substantial taxpayer investment in their housing.

For the other more than 3,300 public housing authorities not as obviously troubled as those cited above and serving non-elderly and non-disabled tenants, HUD should move forward aggressively with its proposal to empower existing tenants with vouchers and require PHAs to compete for funds. These PHAs are still monopolists, and a dose of real competition will raise quality and lower costs.

Another way to achieve the same end, particularly for PHAs serving the elderly and disabled, would be to require cities and communities to put their projects' management contracts out for competitive bid—not just some service and repair functions as are contracted currently. Winning management companies would be chosen based upon cost and quality, much as private sector owners of buildings choose their property managers from the tens of thousands of private companies that routinely provide this service in the competitive marketplace. In addition, tenant groups should be allowed to compete for contracts. Tenant management corporations—fiercely resisted by most PHAs—have a solid track record of efficiency.

Such a change could significantly improve one of the most costly and shameful features of federal housing policy. Moreover, based upon direct experience from the U.S. General Services Administration's own property management reforms, it also would yield substantial reductions in costs. Until the early 1980s, the GSA provided most of the property management services for all federal offices in Washington and throughout the country. But in 1982, under the leadership of Administrator Gerald Carmen, it began to contract out most of its property management functions to private businesses.

According to a General Accounting Office report on the subject,³ between 1982 and 1992 the GSA reviewed 731 commercial activities in its Public Building Service for contracting out under OMB's Circular A-76 procedures.⁴ Of the 731 activities that were formally reviewed for competitive contracting, 73 percent were won by the private sector and contracted out, 24 percent were retained in-house, and 3 were closed down. For those services contracted, savings were substantial compared with the cost of government operations. On average, low contractor bids for activities contracted out were 39 percent less than the government's own cost. For custodial services, the low bid was 50 percent less than the government's cost estimate. Given the low quality of much PHA management, savings of this magnitude or more could be achieved while improving the quality of the living environment in many of these projects.

A change of this scale could not be accomplished overnight. And, in fairness, existing PHAs should be given an opportunity to reform themselves and bid on the contract. To allow time for the PHAs to adopt reforms and to give private sector competitors time to prepare competing bids, Congress could schedule the new policy to begin next January, several months into the new fiscal year. Congress should be flexible on an implementation date—it should not be flexible on talking action to end the PHAs' distinctive monopoly.

3 "Public-Private Mix: Extent of Contracting Out for Real Property Management Services in GSA," United States General Accounting Office, GAO/GGD-94-126, May 1994.

4 See Ronald D. Utt, "Cutting the Deficit and Improving Services by Contracting Out" Heritage Foundation *Backgrounder* No. 1022, March 10, 1995, for a more detailed discussion of government contracting out opportunities.

Whether public housing is reformed by introducing vouchers or by putting housing management out to bid, the key is to force managers to compete for the right to manage. If that is not done, public housing will never improve. Such a change in policy, of course, poses a threat to the inefficient PHAs, so their lobbyists are swarming all over Capitol Hill trying to block it. For the sake of the taxpayers—and the tenants of public housing—Secretary Cisneros and Congress should ignore these lobbyists and introduce long-overdue competition into public housing.

This, however, should be viewed only as a temporary measure pending more comprehensive efforts to overhaul America's failed housing programs. Since its inception in 1965, and despite numerous reforms and reinventions, HUD has reeled from one costly scandal to another. Programs recognized as failures decades ago continue to absorb billions of taxpayer dollars and defy all efforts at reform. Congress by now should recognize that flaws in the federal housing program are fundamental and systemic.

In other publications and in testimony before Congress, analysts at The Heritage Foundation have made detailed recommendations on how to reform America's housing programs.⁵ These recommendations follow from the realization that observed housing problems are really income problems. These recommendations urge government to focus on the cause of the problem, not the effect, by adopting a program of comprehensive welfare reform that rolls all housing assistance into the proposed welfare block grant to the states.

As currently configured by past Congresses, HUD's basic programmatic organization defies every principle of good management. Forced to deal directly with fifty governors, thousands of mayors and city councils, and more than three thousand independent public housing authorities on a project-by-project basis, it is a wonder that HUD's programs are not worse than they are. By getting the government out of the housing business, and by including housing assistance funds into comprehensive social welfare block grants to the states, the lines of communication, control, and responsibility will be clarified and made more manageable. America's housing policy will improve accordingly.

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⁵ Utt, "Improving America's Housing by Shutting Down HUD."