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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY  
EXPECTED AT 9:30 A.M. EST  
WEDNESDAY, APRIL 22, 1981

STATEMENT OF  
HENRY ESCHWEGE, DIRECTOR  
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION



114976

BEFORE THE  
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,  
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS  
UNITED STATES SENATE

ON

ON <sup>GAO</sup>  
GENERAL ACCOUNTING OFFICE REVIEWS OF  
THE LOWER INCOME RENTAL ASSISTANCE PROGRAM (SECTION 8)

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE APPRECIATE BEING HERE TODAY TO DISCUSS THE OPPORTUNITIES WHICH WE BELIEVE EXIST FOR REDUCING COSTS AND IMPROVING THE RESULTS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S SECTION 8 HOUSING PROGRAM. SINCE ITS INCEPTION IN 1974, WE HAVE MADE A NUMBER OF REVIEWS OF THE PROGRAM. AN APPENDIX TO MY STATEMENT PRESENTS A LISTING OF 22 REPORTS WHICH WE HAVE ISSUED. MY REMARKS TODAY WILL HIGHLIGHT THE PRINCIPAL FINDINGS AND RECOMMENDATIONS CONTAINED IN OUR MOST RECENT REPORTS. I WILL ALSO COMMENT BRIEFLY ON SOME OF OUR ONGOING WORK.

IN GENERAL, [OUR WORK HAS SHOWN THAT THE SECTION 8 PROGRAM HAS PROVIDED SAFE, DECENT, AND SANITARY HOUSING TO MANY LOWER INCOME PERSONS.] FURTHER, [GIVEN THE HIGH CALIBER OF THE HOUSING BEING PROVIDED, OUR WORK HAS SHOWN THAT DEVELOPMENT AND OPERATING COSTS ARE GENERALLY REASONABLE AND INCENTIVES FOR THE PRODUCTION OF THIS HOUSING ARE HIGH. OUR WORK HAS ALSO SHOWN, HOWEVER, THAT SIGNIFICANT SAVINGS ARE POSSIBLE WHICH COULD BE USED TO EXTEND

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HOUSING ASSISTANCE TO A GREATER NUMBER OF THE NEEDY. SECTION 8 HOUSING SUBSIDIES ARE VERY COSTLY AND ARE RISING RAPIDLY, AND THE PROGRAM SERVES ONLY A FRACTION OF THE ELIGIBLE HOUSEHOLDS IN NEED.) THE SAME CONCERNS, IN FACT, WHICH LED TO THE SUSPENSION OF ALL ASSISTED HOUSING PROGRAMS IN 1973 CAN STILL BE EXPRESSED OF THE SECTION 8 PROGRAM: INEQUITABLE DISTRIBUTION OF ASSISTANCE AND HIGH PROGRAM COSTS. NOT LONG AGO [HUD ESTIMATED THAT OVER 18 MILLION FAMILIES IN THIS COUNTRY NEEDED SOME FORM OF HOUSING ASSISTANCE. THE 1.7 MILLION HOUSING UNITS PLANNED OR COMPLETED TO DATE UNDER THE SECTION 8 PROGRAM WILL NOT GREATLY REDUCE THIS NUMBER NOR WILL THE OTHER SUBSIDY PROGRAMS CURRENTLY BEING FUNDED, SUCH AS PUBLIC HOUSING.)

FROM ITS INCEPTION IN 1974 THROUGH FISCAL YEAR 1980, THE SECTION 8 PROGRAM HAS COST ABOUT \$5.6 BILLION AND HAS INCURRED COMMITMENTS TOTALING ABOUT \$128 BILLION TO PAY FUTURE RENTAL SUBSIDIES OVER THE 20 TO 40 YEARS CONTRACT LIFE OF THE 1.7 MILLION HOUSING UNITS PLANNED OR COMPLETED. AS WE HAVE STATED, SECTION 8 PROGRAM SUBSIDY COSTS HAVE BEEN RISING RAPIDLY. ANNUAL SUBSIDY COSTS PER HOUSING UNIT ARE CURRENTLY ESTIMATED AT \$5,900 FOR NEW CONSTRUCTION, \$6,900 FOR SUBSTANTIAL REHABILITATION, AND \$3,600 FOR EXISTING HOUSING. IT IS NOT UNUSUAL TO FIND SECTION 8 HOUSING UNITS IN HIGH COST AREAS RENTING FOR \$600 TO \$700 PER MONTH.

SECTION 8 WAS INTENDED TO SERVE A WIDE RANGE OF ELIGIBLE PEOPLE, IN ACCORDANCE WITH LOCAL HOUSING NEEDS. HOWEVER, IN OUR SEPTEMBER 1980 REPORT WE POINTED OUT THAT [HOUSING PRODUCED UNDER SECTION 8 HAS PRIMARILY BEEN SERVING ELDERLY AND SMALL

NON-ELDERLY FAMILIES. VERY LITTLE SECTION 8 HOUSING IS BEING BUILT FOR LARGE FAMILIES.)

[THE INEQUITY ISSUE REGARDING THE NONAVAILABILITY OF SECTION 8 HOUSING BENEFITS TO MANY ELIGIBLE HOUSEHOLDS IS PARTICULARLY UNFORTUNATE AND DESERVING OF SERIOUS ATTENTION.) WHILE WE HAVE NOT PROPOSED FUNDAMENTAL POLICY CHANGES IN THE MANNER IN WHICH HOUSING SUBSIDIES ARE DISTRIBUTED, [WE HAVE RECOMMENDED THAT THE SECRETARY OF HUD ESTABLISH A TASK FORCE OR A STUDY GROUP WITHIN THE AGENCY TO EXPLORE HOW A GREATER DEGREE OF EQUITY CAN BE ACHIEVED IN THE DISTRIBUTION OF HOUSING SUBSIDIES TO THE MANY HOUSEHOLDS DETERMINED TO BE IN NEED.] HUD DID NOT RESPOND FAVORABLY TO OUR RECOMMENDATION. THEY SAID THAT THEIR PROGRAMS WERE CONTINUALLY UNDERGOING THE TYPE OF POLICY ANALYSIS WHICH WE WERE RECOMMENDING.

WITHIN THE PRESENT CONCEPTS AND DESIGNS FOR SUBSIDIZED HOUSING PROGRAMS, HOWEVER, [A NUMBER OF ACTIONS COULD BE TAKEN TO REDUCE THE PER UNIT COST OF SUBSIDIZED HOUSING AND ENABLE THE LIMITED AVAILABLE FUNDS TO REACH MORE ELIGIBLE HOUSEHOLDS.] LET ME ENUMERATE THE PRINCIPAL ACTIONS THAT [WE HAVE RECOMMENDED:

- EMPHASIZE LOWER COST FINANCING OPTIONS
- INCREASE INCENTIVES FOR HIGH-QUALITY MANAGEMENT AND LONG-TERM OWNERSHIP OF SECTION 8 PROJECTS
- BUILD MORE MODEST SIZE HOUSING WITH FEWER AMENITIES
- REDUCE OCCUPANCY BY INELIGIBLE HOUSEHOLDS
- MAKE BETTER USE OF FAMILY HOUSING UNITS
- EVALUATE THE PROPRIETY OF AUTOMATIC ANNUAL RENT INCREASES

--INCREASE TENANT CONTRIBUTIONS, AND STRENGTHEN  
PROCEDURES USED IN VERIFYING TENANT INCOME

EMPHASIZE LOWER COST FINANCING OPTIONS

THE COST TO THE GOVERNMENT OF PRODUCING AND SUPPORTING SUBSIDIZED HOUSING UNITS VARIES CONSIDERABLY, DEPENDING ON THE FINANCING ALTERNATIVES USED. IN OUR SEPTEMBER 1980 REPORT, WE COMPARED THE COSTS OF PROVIDING A STANDARD HOUSING UNIT UNDER THE MAJOR FINANCING ALTERNATIVES FOR A HOUSING UNIT LIFE CYCLE OF 20 YEARS. THE COST COMPARISONS INCLUDED BOTH THE DIRECT SUBSIDIES AND INDIRECT COSTS SUCH AS DISCOUNTS ON MORTGAGES PURCHASED BY THE GOVERNMENT AND THE TAX EXPENDITURES RESULTING FROM REAL ESTATE TAX SHELTERS OR TAX EXEMPT SECURITIES. THE LONG TERM COSTS OF PROVIDING HOUSING THROUGH THE PUBLIC HOUSING AND FEDERAL HOUSING ADMINISTRATION (FHA) INSURANCE ALTERNATIVES WERE MUCH LOWER THAN THROUGH THE STATE HOUSING OPTION OR SECTION 11(b) OF THE 1974 HOUSING AMENDMENTS WHICH AUTHORIZES LOCAL TAX-EXEMPT FINANCING FOR SECTION 8 PROJECTS. FOR EXAMPLE, THE DISCOUNTED PER UNIT, PER YEAR, LIFE CYCLE COSTS TO PROVIDE A TWO-BEDROOM APARTMENT UNIT FOR A FAMILY OF FOUR WITH A GROSS ANNUAL INCOME OF \$5,000 WERE ABOUT \$2,000 FOR PUBLIC HOUSING, \$2,200 FOR FHA TANDEM, \$2,500 FOR SECTION 11(b), AND \$2,600 FOR STATE HOUSING.

OUR FINDING THAT BOTH PRIVATE OWNERSHIP AND TAX EXEMPT BONDS ARE MORE EXPENSIVE SEEMS PARTICULARLY RELEVANT SINCE THE PROPOSED CURTAILMENT OF FURTHER USE OF GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA) TANDEM FUNDS VIRTUALLY ASSURES GREATER USE OF TAX EXEMPT BONDS TO RAISE MORTGAGE FUNDS FOR

SECTION 8. THIS CAN BE EXPECTED TO INCREASE LIFE CYCLE UNIT COSTS BY 14 TO 18 PERCENT.

BASED ON OUR ANALYSIS, WE RECOMMENDED THAT

--HUD PLACE MORE EMPHASIS ON PUBLIC HOUSING BY PRODUCING A LARGER PROPORTION OF ASSISTED HOUSING UNITS WITH THIS MECHANISM AND THAT THE CONGRESS PROVIDE NECESSARY FUNDING SHIFTS TO MAKE THIS FEASIBLE.

--THE CONGRESS REQUIRE HUD TO USE TAXABLE BONDS RATHER THAN TAX-EXEMPTS FOR STATE AGENCY SECTION 8 FINANCING.

--THE CONGRESS REEVALUATE THE USE OF THE SECTION 11(b) FINANCE MECHANISM AS PRESENTLY STRUCTURED. IT IS FAR MORE COSTLY THAN OTHER MECHANISMS WHEN USED FOR PRIVATE DEVELOPMENT AND IS FAVORED BY DEVELOPERS ONLY WHEN TANDEM FUNDS ARE UNAVAILABLE.

--HUD PROVIDE BUDGET ESTIMATES TO THE CONGRESS WHICH SHOW ALL MAJOR COSTS OVER AN EXPECTED SUBSIDY LIFE, DISCOUNTED TO REFLECT CURRENT YEAR DOLLARS. THESE ESTIMATES SHOULD INCLUDE INDIRECT COSTS SUCH AS TAX EXPENDITURES DUE TO SPECIAL REAL ESTATE TAX TREATMENTS, WHICH DO NOT NECESSARILY AFFECT THE DEPARTMENT'S BUDGET, YET ARE REAL COSTS OF SUBSIDIZING NEEDY TENANTS.

HUD DISAGREED WITH OUR SPECIFIC RECOMMENDATIONS AND RAISED DOUBTS ABOUT THE ADVISABILITY OF MAKING DECISIONS ON A LIFE CYCLE COST ANALYSIS SUCH AS OURS BECAUSE IT WOULD HAVE TO BE BASED ON A NUMBER OF ASSUMPTIONS.

INCREASE INCENTIVES FOR HIGH-QUALITY  
MANAGEMENT AND LONG-TERM OWNERSHIP

THE FINANCIAL INDUCEMENTS FOR SECTION 8 OWNERS TO ENSURE GOOD MANAGEMENT AND PROVIDE QUALITY HOUSING SERVICES ARE NOT

VERY STRONG. SECTION 8 WILL PROBABLY PROVIDE MUCH GREATER OPPORTUNITIES FOR PROFITS DURING THE OPERATING LIFE OF PROJECTS THAN DID EARLIER SUBSIDY PROGRAMS, BECAUSE THE SUBSIDY IS DEEPER AND CAN BE ADJUSTED TO KEEP PACE WITH INCREASES IN OPERATING COSTS. NEVERTHELESS, THE MAJOR PROFIT INCENTIVES ARE FOR PRODUCTION AND TAX AVOIDANCE, NEITHER OF WHICH ARE STRONGLY LINKED TO GOOD MANAGEMENT OR EFFICIENT OPERATION. OWNERS ARE MOTIVATED TO THE EXTENT OF ENSURING SURVIVAL OF A PROJECT IN ORDER TO MAINTAIN THE TAX SHELTER AND AVOID COSTLY RECAPTURE IN THE EVENT OF FORECLOSURE. YET THIS IS NOT REALLY A POSITIVE INCENTIVE FOR EITHER HIGH QUALITY OR EFFICIENT PROJECT OPERATION, BUT RATHER FOR MINIMAL MANAGEMENT WITH NO CASH CONTRIBUTIONS FOR OPERATION BEYOND THAT GENERATED BY THE SUBSIDY AND TENANT RENTS. ALSO, MANAGEMENT AGENTS APPEAR TO HAVE NO OBVIOUS FINANCIAL INCENTIVES TO CONTROL OPERATING COSTS. THEIR FEES ARE DIRECTLY RELATED TO PROJECT REVENUES COLLECTED WHICH, IN EFFECT, ARE LIMITED BY THE PROJECT RENTS SET BY HUD.

WE RECOMMENDED THAT HUD TAKE STEPS TO INCREASE THE INCENTIVES FOR HIGH-QUALITY MANAGEMENT OF SECTION 8 NEW CONSTRUCTION PROJECTS. ONE POSSIBLE WAY OF DOING THIS WOULD BE TO REQUIRE DEVELOPERS TO MAKE HIGHER EQUITY INVESTMENTS AND, IN RETURN, ALLOW GREATER CASH DISTRIBUTIONS DURING OPERATIONS. SUCH A REQUIREMENT SHOULD ATTRACT INVESTORS WHO ARE LESS MOTIVATED TO SEEK SHELTERS FROM TAX LOSSES GENERATED BY PRODUCTION AND MORE INTERESTED IN YEARLY PROFITS POSSIBLE FROM EFFICIENTLY OPERATING SECTION 8 PROJECTS AND PROVIDING HOUSING SERVICES.

THE ABSENCE OF MANAGEMENT INCENTIVES COULD MOTIVATE MANY CURRENT SECTION 8 OWNERS TO SELL OR CONVERT THEIR PROJECTS TO CONDOMINIUMS AFTER AS LITTLE AS 5 OR 10 YEARS.

IN THE PAST HUD'S HOUSING ASSISTANCE PAYMENT CONTRACT WITH SECTION 8 PROJECT OWNERS ALLOWED THE 20-YEAR REGULATORY AGREEMENT TO BE CANCELED, AT THE OPTION OF THE OWNER, AFTER 5 YEARS OR MULTIPLES OF 5 YEARS. BECAUSE OF STRONG ECONOMIC INCENTIVES MANY OWNERS COULD DISPOSE OF THEIR INVESTMENTS LONG BEFORE THE END OF THE 20 YEARS, THUS ASSURING THE LOSS OF MANY UNITS FROM THE NATIONAL STOCK OF SUBSIDIZED HOUSING. THIS WOULD DISPLACE LOW AND MODERATE INCOME TENANTS AND INCREASE FUTURE SUBSIDY COSTS WHEN THESE UNITS WERE REPLACED. IN LINE WITH OUR RECOMMENDATIONS, THE LAW WAS REVISED (HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1979) AND HUD'S REGULATIONS WERE AMENDED TO REQUIRE A MINIMUM CONTRACT TERM OF 20 YEARS FOR FUTURE SECTION 8 PROJECTS.

HOWEVER, FOR MANY OF THE UNITS ALREADY IN OPERATION UNDER THE 5 YEAR HOUSING ASSISTANCE PAYMENT CONTRACT, EARLY SALE AND CONVERSION TO UNSUBSIDIZED HOUSING IS STILL POSSIBLE. BY NOW THE FIRST PROJECTS ARE ABOUT 5 YEARS OLD. THEREFORE, PROJECT OWNERS WILL SOON BE DETERMINING WHETHER TO CONTINUE OPERATIONS OR TO DISPOSE OF THEIR INVESTMENTS, POSSIBLY BY CONDOMINIUM CONVERSIONS, IN FAVOR OF RENEWED TAX SHELTERS OR OTHER INVESTMENT OPPORTUNITIES.

HUD AGREED WITH OUR RECOMMENDATION THAT IT STUDY A VARIETY OF METHODS, INCLUDING ECONOMIC INCENTIVES AND CONTRACTUAL SANCTIONS, TO ENCOURAGE PROJECT OWNERS UNDER 5-YEAR ASSISTANCE CONTRACTS TO CONTINUE IN THE SECTION 8 PROGRAM AFTER THEIR CONTRACTS EXPIRE.

BUILD MORE MODEST SIZE HOUSING WITH FEWER AMENITIES

BECAUSE THE CRITERIA GOVERNING THE CALIBER OF HOUSING WHICH CAN BE PRODUCED UNDER THE SECTION 8 NEW CONSTRUCTION/SUBSTANTIAL REHABILITATION PROGRAM IS RATHER GENERAL AND SUBJECT TO A WIDE RANGE OF INTERPRETATION, HOUSING IS OFTEN BETTER THAN MOST OTHER RENTAL HOUSING IN THE GENERAL MARKET AREAS WHERE IT IS LOCATED. WE REPORTED THAT THERE WAS A GENEROUS ATTITUDE WITHIN HUD REGARDING FEATURES AND AMENITIES PERMITTED IN SUBSIDIZED HOUSING. THERE WAS LITTLE RECOGNITION THAT SUCH HOUSING WAS COSTLY TO PRODUCE, INVOLVES HIGH UNIT RENTS, AND INVITES RESENTMENT ON THE PART OF THE TAXPAYING PUBLIC. SECTION 8 HOUSING IS OFTEN SO COSTLY THAT MODERATE AND EVEN MIDDLE INCOME, UNASSISTED HOUSEHOLDS CANNOT AFFORD TO LIVE IN IT.

SIGNIFICANT SAVINGS IN CONSTRUCTION AND OPERATING COSTS, WHICH WOULD TRANSLATE INTO LOWER RENTAL SUBSIDIES, COULD BE ACHIEVED IF NEW SECTION 8 UNITS WERE BUILT TO MORE MODEST STANDARDS IN TERMS OF SIZE (FLOOR SPACE) AND AMENITIES. FOR EXAMPLE, THE SIZES OF 870 UNITS IN 12 FAMILY PROJECTS WE VISITED WERE SIGNIFICANTLY LARGER THAN THE MINIMUM SIZES CONSIDERED ADEQUATE USING HUD'S MINIMUM PROPERTY STANDARDS. WE ESTIMATED THAT THE ADDITIONAL SQUARE FOOTAGE IN THESE UNITS (OVER AND ABOVE THE STATED HUD MINIMUM, PLUS 50 SQUARE-FEET PER UNIT) REPRESENTED ADDITIONAL ANNUAL DIRECT RENTAL SUBSIDIES OF ABOUT \$345,000. WE OBSERVED ALSO THAT THE PRIMARY TYPE OF HOUSING UNIT PROVIDED TO THE SINGLE ELDERLY IS THE ONE-BEDROOM UNIT. WE ESTIMATED THAT IN THE NEAR FUTURE HUD COULD BE PAYING ADDITIONAL RENT OF AS MUCH AS \$168 MILLION ANNUALLY TO HOUSE ELDERLY SINGLE PEOPLE IN ONE-BEDROOM UNITS RATHER THAN IN EFFICIENCIES. FINALLY, WE



NOTED A WIDE RANGE OF SPECIAL FEATURES (AMENITIES) AT THE PROJECTS VISITED WHICH COULD BE QUESTIONED FOR HOUSING WHICH IS SO HEAVILY SUBSIDIZED AND WHICH IS SERVING ONLY A FRACTION OF THE HOUSEHOLDS IN NEED. AT ONE HUD AREA OFFICE, COMMON FEATURES SUCH AS CENTRAL AIR CONDITIONING, GARBAGE DISPOSALS, DRAPERIES AND A FEW OTHER ITEMS WERE ESTIMATED BY HUD TO ADD \$50 PER MONTH TO UNIT RENTS. WHAT MAY SEEM LIKE A MODEST COST INCREASE TRANSLATES INTO \$1.2 MILLION WHEN EXPENDED FOR 100 UNITS OVER A 20 YEAR CONTRACT. WE OF COURSE RECOGNIZE THAT CLIMATE AND OTHER FACTORS MAY JUSTIFY SUCH FEATURES AS AIR CONDITIONING.

WE RECOMMENDED THAT HUD (1) DEVELOP AN EXPLICIT DEFINITION OF "MODEST HOUSING," (2) REDUCE THE TYPES AND NUMBERS OF AMENITIES PERMITTED IN NEW CONSTRUCTION HOUSING AND (3) HOUSE THE SINGLE ELDERLY IN EFFICIENCY OR STUDIO APARTMENTS INSTEAD OF ONE-BEDROOM UNITS.

HUD HAS RECENTLY ADDED PROVISIONS TO THE SECTION 8 REGULATIONS TO SPECIFICALLY LIMIT AMENITIES IN PROJECTS TO THOSE GENERALLY PROVIDED IN UNASSISTED HOUSING OF MODEST DESIGN IN THE MARKET AREA. HOWEVER, MUCH AMBIGUITY SURROUNDS THE CONCEPT OF "MODEST HOUSING" AND WHAT IT SHOULD CONSIST OF UNDER THE SECTION 8 PROGRAM. ACCEPTABLE AMENITIES CRITERIA PUBLISHED UNDER THE REVISED REGULATIONS WOULD HAVE HAD LITTLE IMPACT ON REDUCING THE NUMBER AND TYPE OF AMENITIES FOR MOST OF THE 31 PROJECTS WE VISITED WHICH WERE COMPLETED IN 1979 BEFORE THE REVISED REGULATIONS WENT INTO EFFECT.

REDUCE OCCUPANCY BY INELIGIBLE HOUSEHOLDS

IN A REPORT TO BE RELEASED SHORTLY, WE NOTE THAT THE OCCUPANCY OF SECTION 8 HOUSING BY INELIGIBLE HOUSEHOLDS IS A MAJOR AND COSTLY

PROBLEM. ALTHOUGH PROGRAM RULES DO ALLOW SOME LEEWAY FOR OWNERS TO RENT UNITS UNDER SECTION 8 ASSISTANCE CONTRACTS TO HOUSEHOLDS INELIGIBLE TO RECEIVE ASSISTANCE, THE RULES ARE TOO LENIENT AND SOME OWNERS IGNORE THEM. WHILE INELIGIBLE TENANTS RECEIVE NO DIRECT SUBSIDIES, THEY DO BENEFIT FROM LARGE, INDIRECT FINANCING SUBSIDIES AND THEY DISPLACE NEEDY HOUSEHOLDS.

HUD NEEDS TO

- (1) MODIFY PROGRAM REGULATIONS FOR NEW SECTION 8 PROJECTS TO FURTHER LOWER THE PERCENTAGE LIMITATION FROM 10 TO 5 PERCENT ON THE NUMBER OF UNITS THAT CAN BE OCCUPIED BY INELIGIBLE HOUSEHOLDS WITHOUT HUD APPROVAL.
- (2) ISSUE EXPLICIT ENFORCEMENT GUIDELINES FOR USE BY HUD REGIONAL AND AREA OFFICES IN DEALING WITH PROJECT OWNERS WHO EXCEED THE LIMITATION ON INELIGIBLE HOUSEHOLDS, AND
- (3) AMEND SECTION 8 REGULATIONS TO EXPLICITLY STATE A PROJECT OWNER'S RESPONSIBILITY TO MAKE EVERY EFFORT TO RENT ALL SECTION 8 CONTRACTED UNITS TO ELIGIBLE HOUSEHOLDS BEFORE UTILIZING ANY EXCEPTION FOR INELIGIBLE HOUSEHOLDS.

WE ARE ALSO CONSIDERING THE DESIRABILITY OF PLACING A 5 PERCENT LIMIT ON HOUSING INELIGIBLE HOUSEHOLDS IN PREVIOUSLY COMPLETED SECTION 8 PROJECTS.

## MAKE BETTER USE OF FAMILY HOUSING UNITS

WE HAVE ALREADY DISCUSSED SAVINGS POSSIBLE BY HOUSING THE SINGLE ELDERLY IN EFFICIENCY UNITS. IN MARCH 1981 WE REPORTED ALSO THAT OVER HALF OF THE SAMPLING OF 862 FAMILY HOUSING UNITS IN NEWLY CONSTRUCTED PROJECTS WHICH WE VISITED DURING THIS PARTICULAR REVIEW WERE UNDERUTILIZED IN THE SENSE THAT MORE PERSONS COULD HAVE BEEN HOUSED IN THEM. WE ESTIMATED THAT AN ADDITIONAL 700 TO 1,100 PERSONS COULD HAVE BEEN HOUSED IN THESE UNITS IF OPTIMUM USE WAS BEING ACHIEVED. THE PRINCIPAL REASONS FOR UNDERUSE WERE: (1) HUD'S REGULATIONS ON MINIMUM ACCEPTABLE OCCUPANCY LEVELS FOR NEW SECTION 8 FAMILY UNITS ARE VAGUE AND LEAVE CONSIDERABLE LATITUDE TO HUD FIELD STAFF AND FAMILY PROJECT OWNERS AND MANAGERS; (2) FAMILY PROJECT OWNERS AND MANAGERS HAVE LITTLE OR NO INCENTIVE TO ACHIEVE OPTIMUM OCCUPANCY LEVELS IN THEIR UNITS; IN FACT, THE INCENTIVE APPEARS TO BE TO MINIMIZE OCCUPANCY IN ORDER TO REDUCE OPERATING COSTS AND OTHER PROBLEMS; (3) TENANTS TYPICALLY SEEK THE LARGEST UNITS AND MOST ROOMS THEY CAN FIND BECAUSE UNDER SECTION 8 PROCEDURES THEY PAY THE SAME RENT FOR A LARGE UNIT AS THEY DO FOR A SMALL UNIT.

WE RECOMMENDED THAT HUD (1) DEVELOP DEFINITIVE GUIDELINES REQUIRING THAT UNITS BE ASSIGNED AND REASSIGNED TO ACHIEVE OPTIMUM UTILIZATION OF ALL UNITS AND (2) MONITOR THE USE OF SECTION 8 UNITS MORE CLOSELY AND INVOKE APPROPRIATE PENALTIES WHERE OWNER/MANAGERS CONSISTENTLY FAIL TO COMPLY WITH HUD OCCUPANCY GUIDELINES.

HUD AGREED GENERALLY WITH THE THRUST OF OUR REPORT, BUT PLANS TO PROVIDE MORE DETAILED COMMENTS AT A LATER DATE.

## EVALUATE THE PROPRIETY OF AUTOMATIC RENT INCREASES

ANOTHER MATTER OF CONCERN TO US HAS BEEN THE PRACTICE OF GRANTING ANNUAL AUTOMATIC RENT INCREASES BASED ON CHANGES IN THE CONSUMER PRICE INDEX FOR RENTS AND UTILITIES, WITHOUT EVALUATING ACTUAL OPERATING COSTS SHOWN IN FINANCIAL STATEMENTS OF PROJECT OWNERS. THIS PROCEDURE PRECLUDES EFFECTIVE CONTROL BY HUD OVER THE REASONABLENESS OF SECTION 8 OPERATING COSTS. WE RECOMMENDED THAT HUD REFER TO THE REQUIRED ANNUAL CERTIFIED FINANCIAL STATEMENTS TO EVALUATE THE REASONABLENESS OF FORMULA-BASED ANNUAL RENT INCREASES GIVEN TO PROJECT OWNERS. RENT INCREASES SHOULD BE CONSISTENT WITH CONCRETE EVIDENCE OF THE NEED FOR SUCH INCREASES.

## INCREASE TENANT CONTRIBUTIONS AND STRENGTHEN PROCEDURES USED IN VERIFYING TENANT INCOME

THE HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1979 AUTHORIZED AN INCREASE IN THE MAXIMUM RENTAL CONTRIBUTION REQUIRED FROM PROGRAM BENEFICIARIES FROM 25 TO 30 PERCENT OF INCOME. HUD, HOWEVER, CONSIDERED THE PROVISION TO BE DISCRETIONARY AND INITIALLY REJECTED IT BECAUSE OF THE AGENCY'S FEELING THAT IT WOULD PLACE AN ADDED BURDEN ON LOWER INCOME TENANTS. HUD'S POSITION IGNORED THE LARGE NUMBER OF NEEDY HOUSEHOLDS FOR WHICH THERE ARE CURRENTLY NO SUBSIDIZED HOUSING DOLLARS. RECENTLY, THE REAGAN ADMINISTRATION PROPOSED TO INCREASE OVER THE NEXT 5 YEARS THE MAXIMUM ALLOWABLE RENT CONTRIBUTION PAID BY TENANTS TO 30 PERCENT OF ADJUSTED INCOME. THE RENT PAYMENT DIFFERENTIAL FOR VERY NEEDY FAMILIES, HOWEVER, IS NOT PROPOSED TO BE CHANGED THROUGH 1986. THE COMPTROLLER GENERAL SUPPORTED THE ADMINISTRATION'S PROPOSAL IN TESTIMONY BEFORE THE HOUSE BUDGET COMMITTEE ON MARCH 3, 1981.

IN CONJUNCTION WITH INCREASING TENANT RENT CONTRIBUTIONS, COMPLETE AND ACCURATE REPORTING AND VERIFICATION OF INCOME IS NEEDED TO ENSURE THAT ONLY ELIGIBLE FAMILIES ARE ASSISTED AND THAT THE LEVEL OF ASSISTANCE IS PROPERLY CALCULATED. SINCE 1971, WE HAVE ISSUED A NUMBER OF REPORTS ON SECTION 8 AND OTHER SUBSIDIZED HOUSING PROGRAMS WHICH HAVE IDENTIFIED SHORTCOMINGS IN THIS AREA. INCOME VERIFICATIONS ARE NOT ALWAYS PROPERLY MADE AND SOME FAMILIES PAY LESS FOR THEIR RENT THAN THEY SHOULD. FOR EXAMPLE, IN AN EARLIER REVIEW, DATA ON FILE AT FOUR SECTION 8 PROJECTS IN NEW YORK CITY WAS NOT ADEQUATE TO DETERMINE FAMILY ELIGIBILITY IN 45 OF 70 CASES WE REVIEWED. IN CHICAGO, OUT OF 65 TENANT FILES WE SAMPLED AT FOUR PROJECTS, 28 DID NOT CONTAIN EVIDENCE SUPPORTING INCOMES AND ALLOWANCES.

AS A RESULT OF OUR JUNE 1980 REPORT HUD AGREED TO TAKE ACTION TO IMPLEMENT OUR RECOMMENDATIONS. HUD SAID ITS ACTIONS WOULD INCLUDE DEVELOPING SEVERAL PROCEDURES, NOTICES, AND TRAINING COURSES AND REVISING HUD'S "OCCUPANCY HANDBOOK." HOWEVER, BEFORE PUTTING A SYSTEM INTO EFFECT THAT WOULD PROVIDE SANCTIONS AGAINST OWNERS AND PUBLIC HOUSING AGENCIES, AS WE HAD RECOMMENDED, HUD WANTS TO REVIEW THE RESULTS OF ITS CURRENT RESEARCH AND ADMINISTRATIVE REFORMS. THE FORMER SECRETARY SAID HE BELIEVED THESE RESULTS WOULD PROVIDE HUD WITH A CLEAR INDICATION OF THE TYPES OF SANCTIONS THAT ARE DESIRABLE AND THE INSTANCES IN WHICH THEY ARE APPROPRIATE.

#### OTHER MATTERS

BEFORE CONCLUDING, LET ME MENTION ANOTHER MATTER HAVING GOOD POTENTIAL FOR COST SAVINGS. WHILE OUR WORK HAS NOT

PROGRESSED TO THE POINT WHERE WE CAN MAKE SPECIFIC RECOMMENDATIONS, WE BELIEVE THAT SOME CHANGES SHOULD BE CONSIDERED.

THE INDIRECT SUBSIDIES ASSOCIATED WITH PARTIALLY ASSISTED NEW OR SUBSTANTIALLY REHABILITATED SECTION 8 PROJECTS GREATLY INCREASE THE COST OF THE PROGRAM WHILE PROVIDING LARGER RENT REDUCTIONS FOR MIDDLE INCOME RENTERS WHO ARE NOT IN THE PROGRAM.

A PARTIALLY ASSISTED PROJECT IS ONE IN WHICH ONLY 20 PERCENT OF THE UNITS RECEIVE DIRECT SECTION 8 ASSISTANCE, BUT ALL UNITS BENEFIT FROM FINANCING SUBSIDIES THROUGH TANDEM OR TAX EXEMPT BONDS WHICH LOWER THE RENTS FOR ALL UNITS. FOR EXAMPLE, AT CURRENT INTEREST RATES THE TANDEM SUBSIDY CAN EASILY EXCEED \$10,000 PER UNIT. THIS IS INCURRED ON EVERY UNIT ALTHOUGH ONLY 1 IN 5 MAY SERVE TENANTS WHO QUALIFY FOR SECTION 8 ASSISTANCE.

IF PARTIALLY ASSISTED PROJECTS CONTINUE TO BE DEVELOPED, SOME MECHANISM FOR REDUCING OR RECAPTURING THESE INDIRECT SUBSIDIES ON NONASSISTED UNITS SHOULD PROBABLY BE DEVELOPED.

FINALLY, WITH FURTHER REGARD TO THE MANY ELIGIBLE FAMILIES AND HOUSEHOLDS WHO CANNOT BE ASSISTED BY HUD DUE TO FUNDING LIMITATIONS, WE HAVE NOTED THAT HUD MAKES NO ATTEMPT TO EXCLUDE ILLEGAL ALIENS FROM RECEIVING FEDERAL HOUSING SUBSIDIES. IN RESPONSE TO OUR INQUIRY ON THIS MATTER, IN WHICH WE PRESENTED CERTAIN INFORMATION THAT ILLEGAL ALIENS WERE RESIDING IN PUBLIC HOUSING PROJECTS IN SIGNIFICANT NUMBERS, HUD ADVISED US THAT IT HAS NO STATUTORY AUTHORITY FOR INQUIRING INTO THE CITIZENSHIP STATUS OF PERSONS APPLYING FOR FEDERAL HOUSING SUBSIDIES.

BASED ON INFORMATION WHICH WE FURNISHED, CONGRESSMAN WAYNE GRISHAM HAS INTRODUCED <sup>has been introduced</sup> LEGISLATION (H.R. 1643) TO PROHIBIT ILLEGAL ALIENS FROM RECEIVING FEDERAL HOUSING ASSISTANCE.

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IN SUMMARY MR. CHAIRMAN, THERE ARE NO EASY OR INEXPENSIVE SOLUTIONS TO THE PROBLEM OF PROVIDING HOUSING ASSISTANCE TO THE POOR, BUT EFFORTS MUST BE MADE TO ENSURE THAT AVAILABLE DOLLARS ARE SPENT IN WAYS THAT ALLOW MEANINGFUL ASSISTANCE TO BE PROVIDED TO THE MAXIMUM NUMBER OF HOUSEHOLDS.

WE SHALL BE GLAD TO RESPOND TO YOUR QUESTIONS.

LISTING OF PRIOR GAO REPORTS  
RELATING TO THE SECTION 8 PROGRAM

<u>REPORT NUMBER</u>	<u>DATE</u>	<u>TITLE</u>
RED-75-349	4/ 1/75	Comparative Costs of the Department of Housing and Urban Development's Section 8 Leasing and 236 Rental Housing Programs
RED-76-85	3/12/76	Cost of the Section 8 Lower Income Housing Assistance Program
PAD-76-44	7/28/76	A Comparative Analysis of Subsidized Housing Costs
CED-76-152	9/24/76	Review of HUD's Consideration of Strawbride Square, Fairfax County, Va.
CED-77-19	1/28/77	Major Changes Are Needed in the New Leased-Housing Program
CED-77-84	6/16/77	Review of Fair Market Rents Established by HUD for New Housing Units in Lancaster, Pa.
PAD-78-13	1/10/78	Section 236 Rental Housing-- An Evaluation with Lessons for the Future
CED-78-117	5/10/78	Elimination of the Rent Credit Feature of the Section 8 Existing Housing Program
N/A	6/27/78	Savings Possible Through the Recognition of Favorable Financing and Tax Abatements in Establishing Section 8 Contract Rents



## APPENDIX

## APPENDIX

<u>REPORT NUMBER</u>	<u>DATE</u>	<u>TITLE</u>
CED-78-150	7/17/78	Review of Decision to Cancel Section 8 Elderly Housing in Harrisburg, Pa.
CED-78-181	10/20/78	Review of Efforts by HUD to avoid, through its Section 8 Program, Undue Concentrations of Lower Income Persons
CED-79-7	1/10/79	Review of HUD's Processing of Section 8 Project in Miami Township of Clermont County, Milford, Ohio
PAD-79-43	1/16/79	Cost of Section 8 Housing Could Increase if Owners Sell or Convert Projects Early
CED-79-51	3/ 1/79	Duplicate Payments of Section 8 Assistance to Some Project Owners
CED-79-76	4/25/79	Evaluation of HUD's Comments to Our January 10, 1979 Letter to Congressman Harsha
CED-80-7	10/30/79	Housing Leased to Lower Income Persons: Better Federal Guidance and Management Could Improve Quality
CED-80-31	12/19/79	HUD Should Improve its Management of Acquired, Formerly Subsidized Multifamily Projects
CED-80-59	6/ 6/80	Section 8 Subsidized Housing-- Some Observations on its High Rents, Costs, and Inequities
N/A	8/21/80	Ineligible Households in Section 8 Assisted Housing
PAD-80-13	9/30/80	Evaluation of Alternatives for Financing Low and Moderate Income Rental Housing

APPENDIX

APPENDIX

<u>REPORT NUMBER</u>	<u>DATE</u>	<u>TITLE</u>
CED-81-54	3/ 6/81	How to House More People at Lower Costs Under the Section 8 New Construction Program
CED-81-74		Lenient Rules Abet the Occupancy of Low Income Housing by Ineligible Tenants