

TABLE B-1. (Continued)

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast.

- a. Includes allowable expense levels, utility costs, and utility adjustments.
- b. Includes rent collections and interest income.
- c. Includes only subsidies to PHAs calculated under the PFS.
- d. This is the budget authority required to fund the same real level of services each year as financed in 1983. The level of improvements that would be made would be roughly half of the budget authority amount.
- e. Includes subsidies calculated outside the PFS, such as those for U.S. territories, and other expenses such as audits.

TABLE B-2. PROJECTED SUBSIDY LEVELS UNDER THE PERFORMANCE FUNDING SYSTEM BY REGION AND SIZE OF PUBLIC HOUSING AUTHORITY, 1984 AND 1988 a/

Region <u>b/</u>	Total		Size of Public Housing Authority <u>c/</u>							
	1984	1988	Very Large		Large		Medium		Small	
			1984	1988	1984	1988	1984	1988	1984	1988
Average Subsidy (dollars per unit per month)										
Northeast	142	159	172	195	132	149	92	101	78	84
Central	90	102	148	171	77	87	41	42	36	37
South	71	80	118	137	87	99	50	53	38	40
West	76	85	125	142	79	88	73	82	34	35
Total	106	120	156	178	98	111	63	68	48	51
Total Subsidy (millions of dollars)										
Northeast	802	907	570	648	107	122	61	68	64	68
Central	321	365	229	267	47	53	19	19	26	25
South	184	207	77	89	46	53	36	39	26	26
West	66	73	33	38	7	7	15	16	11	12
Total	1,374	1,551	909	1,042	207	236	130	142	127	131

SOURCE: Congressional Budget Office.

TABLE B-2. (Continued)

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast. For further detail, see: The Congressional Budget Office, The Outlook for Economic Recovery, February 1983.

- a. This table includes only public housing authorities that receive operating subsidies through the PFS.
- b. See Appendix A for a list of the states included in each HUD region.
- c. Very large PHAs are those with 6,600 or more units. Large PHAs are those with 1,250 to 6,599 units. Medium PHAs are those with 500 to 1,249 units. Small PHAs are those with from 100 to 499 units.

TABLE B-3. PROJECTED SUBSIDY LEVELS UNDER CBO'S REESTIMATE OF THE ADMINISTRATION'S PROPOSED FAIR MARKET RENT SYSTEM, 1984-1988 a/

	1984	1985	1986	1987	1988
Average Funding Level (dollars per unit per month)					
Adjusted Fair Market Rent (FMR) <u>b/</u>	263	276	287	299	310
PHA Income <u>c/</u>	113	119	127	136	144
Federal Subsidy (FMR Less Income) <u>d/</u>	126	127	129	132	134
Subsidy for Operations <u>e/</u>	100	100	100	101	102
Subsidy for Improvements <u>f/</u>	26	27	29	31	32

Total Funding Level (millions of dollars)					
Adjusted Fair Market Rent (FMR) <u>b/</u>	3,390	3,640	3,780	3,900	4,010
PHA Income <u>c/</u>	1,480	1,600	1,700	1,800	1,890
Total Federal Subsidy (FMR-Income) <u>d/</u>	1,630	1,670	1,690	1,710	1,730
Subsidy for Operations <u>e/</u>	1,290	1,310	1,310	1,310	1,310
Subsidy for Improvements <u>f/</u>	340	360	380	400	420
Subsidy for Other PHAs	50	50	60	60	60

SOURCE: Congressional Budget Office.

TABLE B-3. (Continued)

- NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast.
- a. These estimates of the cost of the Administration's proposal vary from the Administration's estimates for several reasons. First, they exclude costs assumed to be funded outside the FMR system, such as payments to U.S. territories. Second, the Administration's estimates include the effects of proposals to count payments under the Food Stamp program as income in determining rent charges and to raise the maximum increase in rents from 10 percent to 20 percent a year. Other differences arise because of differences between the Administration's economic forecast and that of the Congressional Budget Office. Finally, use of different data bases produced minor differences in the results.
 - b. Adjusted FMR is the FMR in an area adjusted for the distribution of a PHA's units by number of bedrooms, the number of high-rise units, tenant-paid utilities, and debt service. See text for details.
 - c. Includes rent collections and interest income.
 - d. Note that the subsidy received is subject to floors and caps and is not, therefore, strictly equal to FMR minus PHA income. This excludes subsidies currently calculated outside the Performance Funding System for U.S. territories.
 - e. Total subsidy minus that portion assumed to be used for improvement needs, defined as 20 percent of nonutility allowable expense levels calculated under the PFS.
 - f. Defined as 20 percent of nonutility allowable expense levels calculated under the PFS.

TABLE B-4. PROJECTED OPERATING SUBSIDY LEVELS UNDER CBO REESTIMATE OF THE ADMINISTRATION'S PROPOSED FAIR MARKET RENT (FMR) SYSTEM, BY REGION AND SIZE OF PUBLIC HOUSING AUTHORITY, 1984 AND 1988 ^{a/}

Region ^{b/}	Total		Size of Public Housing Authority ^{c/}							
	1984	1988	Very Large		Large		Medium		Small	
			1984	1988	1984	1988	1984	1988	1984	1988
Average Subsidy (dollars per unit per month)										
Northeast	128	117	155	144	124	109	87	79	72	67
Central	88	100	143	161	76	92	40	44	35	40
South	70	80	118	142	85	96	49	54	37	40
West	76	90	125	140	79	98	73	85	32	41
Total	100	102	144	146	95	100	61	62	45	47
Total Subsidy (millions of dollars)										
Northeast	726	664	512	478	100	90	57	49	57	47
Central	314	362	224	258	47	57	18	20	25	28
South	182	211	77	93	45	51	35	38	26	29
West	65	77	33	37	7	9	15	17	10	13
Total	1,288	1,313	845	865	199	206	125	124	119	117

SOURCE: Congressional Budget Office.

TABLE B-4. (Continued)

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast. For further detail, see: The Congressional Budget Office, The Outlook for Economic Recovery, February 1983.

- a. Operating subsidies are defined as the total subsidy under the FMR proposal, minus the amount assumed to be needed for improvements. The Administration estimates improvement funding to be 20 percent of allowable expense levels calculated under the Performance Funding System. This table includes only public housing authorities that currently receive operating subsidies under the Performance Funding System.
- b. See Appendix A for a list of the states included in each HUD region.
- c. Very large PHAs are those with 6,600 or more units. Large PHAs are those with 1,250 to 6,599 units. Medium PHAs are those with 500 to 1,249 units. Small PHAs are those with from 100 to 499 units.

TABLE B-5. ESTIMATED CHANGE IN FUNDING FOR OPERATING SUBSIDIES FROM PERFORMANCE FUNDING SYSTEM (PFS) TO CBO'S REESTIMATE OF THE ADMINISTRATION'S PROPOSED FAIR MARKET RENT (FMR) SYSTEM, NORTH-EAST REGION, 1984-1988 (Percent distribution) a/

Change from PFS to FMR	1984	1985	1986	1987	1988
		Federal Operating Subsidies <u>b/</u>			
-50 Percent or More	--	2	4	7	8
-49 to -25	2	9	50	48	54
-24 to -10	48	62	19	19	16
-9 to -1	30	9	13	15	14
No Change	20	12	6	4	2
+1 to +10	<u>c/</u>	7	7	5	4
+11 to +25	<u>c/</u>	1	1	2	2
+26 to +50	<u>c/</u>	--	<u>d/</u>	1	1
+More than 50	<u>c/</u>	--	--	--	--

SOURCE: Congressional Budget Office.

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast.

Dashes in table indicate that no units fell within that category.

- a. These funding levels are weighted by the number of units managed by each public housing authority. The comparison includes only public housing authorities that currently receive operating subsidies under the Performance Funding System. See Appendix A for a list of the states included in the Northeast region.
- b. Operating subsidies are total federal subsidies under the FMR alternative minus the amount assumed to be necessary for improvements, which is defined as 20 percent of nonutility allowable expense levels under each year's projected PFS funding.
- c. The Administration's proposal is designed in such a way that no PHA could receive an operating subsidy in 1984 larger than it would have received even under the PFS.
- d. Less than 0.5 percent.

TABLE B-6. ESTIMATED CHANGE IN FUNDING FOR OPERATING SUBSIDIES FROM PERFORMANCE FUNDING SYSTEM (PFS) TO CBO'S REESTIMATE OF THE ADMINISTRATION'S PROPOSED FAIR MARKET RENT (FMR) SYSTEM, CENTRAL REGION, 1984-1988 (Percent distribution) a/

Change from PFS to FMR	1984	1985	1986	1987	1988
		Federal Operating Subsidies b/			
-50 Percent or More	--	--	--	--	--
-49 to -25	--	1	1	2	3
-24 to -10	2	6	8	8	8
-9 to -1	22	19	19	24	31
No Change	75	22	22	17	10
+1 to +10	c/	43	31	27	18
+11 to +25	c/	5	13	15	20
+26 to +50	c/	3	2	3	6
+More than 50	c/	1	3	4	5

SOURCE: Congressional Budget Office.

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast.

Dashes in table indicate that no units fell within that category.

- a. These funding levels are weighted by the number of units managed by each public housing authority. The comparison includes only public housing authorities that currently receive operating subsidies under the Performance Funding System. See Appendix A for a list of the states included in the Central region.
- b. Operating subsidies are total federal subsidies under the FMR alternative minus the amount assumed to be necessary for improvements, which is defined as 20 percent of nonutility allowable expense levels under each year's projected PFS funding.
- c. The Administration's proposal is designed in such a way that no PHA could receive an operating subsidy in 1984 larger than it would have received under the PFS.

TABLE B-7. ESTIMATED CHANGE IN FUNDING FOR OPERATING SUBSIDIES FROM PERFORMANCE FUNDING SYSTEM (PFS) TO CBO'S REESTIMATE OF THE ADMINISTRATION'S PROPOSED FAIR MARKET RENT (FMR) SYSTEM, SOUTH REGION, 1984-1988 (Percent distribution) a/

Change from PFS to FMR	1984	1985	1986	1987	1988
		Federal Operating Subsidies <u>b/</u>			
-50 Percent or More	--	1	1	1	2
-49 to -25	1	2	2	2	3
-24 to -10	4	4	5	5	6
-9 to -1	7	8	17	31	29
No Change	89	32	20	8	5
+1 to +10	<u>c/</u>	44	26	20	19
+11 to +25	<u>c/</u>	7	24	25	20
+26 to +50	<u>c/</u>	1	2	6	11
+More than 50	<u>c/</u>	1	3	3	5

SOURCE: Congressional Budget Office.

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast.

Dashes in table indicate that no units fell within that category.

- a. These funding levels are weighted by the number of units managed by each public housing authority. The comparison includes only public housing authorities that currently receive operating subsidies under the Performance Funding System. See Appendix A for a list of the states included in the South region.
- b. Operating subsidies are total federal subsidies under the FMR alternative minus the amount assumed to be necessary for improvements, which is defined as 20 percent of nonutility allowable expense levels under each year's projected PFS funding.
- c. The Administration's proposal is designed in such a way that no PHA could receive an operating subsidy in 1984 larger than it would have received under the PFS.

TABLE B-8. ESTIMATED CHANGE IN FUNDING FOR OPERATING SUBSIDIES FROM PERFORMANCE FUNDING SYSTEM (PFS) TO CBO'S REESTIMATE OF THE ADMINISTRATION'S PROPOSED FAIR MARKET RENT (FMR) SYSTEM, WEST REGION, 1984-1988 (Percent distribution) a/

Change from PFS to FMR	1984	1985	1986	1987	1988
		Federal Operating Subsidies <u>b/</u>			
-50 Percent or More	--	--	--	--	--
-49 to -25	--	3	3	3	3
-24 to -10	3	--	--	--	--
-9 to -1	--	11	25	18	18
No Change	97	24	12	19	8
+1 to +10	<u>c/</u>	45	19	11	21
+11 to +25	<u>c/</u>	17	35	32	30
+26 to +50	<u>c/</u>	--	6	16	18
+More Than 50	<u>c/</u>	--	--	1	1

SOURCE: Congressional Budget Office.

NOTE: The effect of the rent increase ordered by the 1981 budget reconciliation act on PHA revenues is based on estimates by the Department of Housing and Urban Development. Other estimates are based on assumptions consistent with the Congressional Budget Office midwinter 1983 economic forecast.

Dashes in table indicate that no units fell within that category.

- a. These funding levels are weighted by the number of units managed by each public housing authority. The comparison includes only public housing authorities that currently receive operating subsidies under the Performance Funding System. See Appendix A for a list of the states included in the West region.
- b. Operating subsidies are total federal subsidies under the FMR alternative minus the amount assumed to be necessary for improvements, which is defined as 20 percent of nonutility allowable expense levels under each year's projected PFS funding.
- c. The Administration's proposal is designed in such a way that no PHA could receive an operating subsidy in 1984 larger than it would have received under the PFS.



APPENDIX C. CURRENT LEGISLATIVE PROPOSALS TO MODIFY SUBSIDIES FOR PUBLIC HOUSING

The House and Senate Banking Committees have each reported housing authorization bills, H.R. 1 and S. 1338, that would change the manner in which subsidies for public housing are determined. ^{1/} The major provisions of the bills that relate to public housing are summarized here.

HOUSING AND URBAN-RURAL RECOVERY ACT OF 1983 (H.R. 1)

The major change that the Housing Banking Committee would make in the current system for subsidizing public housing would be to specify in law the manner in which operating subsidies are to be determined. The bill would set operating subsidies at \$1.55 billion for 1984 and modernization funds at \$2.1 billion. In addition, it would:

- o Adopt a modified version of the Performance Funding System (PFS);
- o Establish a demonstration program enabling public housing authorities to develop child care programs;
- o Set standards for removing units from the stock of public housing; and
- o Require the Secretary of Housing and Urban Development (HUD) to make annual reports to the Congress.

The Performance Funding System

H.R. 1 would adopt the PFS as in effect on March 1, 1983 (see part 890 of Title 24 of the Code of Federal Regulations) with modifications of allowable expense levels (AELs), the treatment of utilities, and the

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1. The version of S. 1338 described here is the one offered by the Senate Banking Committee as a substitute to the Committee-passed bill and accepted by the Senate on June 21, 1983.

calculation of revenues. In addition, the bill calls for a pro rata reduction in operating subsidies each year if the amount appropriated is less than the amount determined to be necessary by the PFS.

Allowable Expense Levels. Both the base AELs and the way in which annual adjustments are made would be modified. (See Chapter IV for a description of current practice.) The bill directs that the AELs of public housing agencies in distressed areas be adjusted to reflect the higher costs of operating in such an environment. The adjustment is to be made on the basis of the local area's growth lag, poverty, age of housing--factors used to determine funding levels in the Community Development Block Grant program--and other characteristics deemed appropriate by the Secretary of HUD. In addition, HUD is to establish a review process to raise AELs that are underestimated, either because the base year was not representative, or because circumstances have changed subsequently.

The annual adjustments to AELs would also be modified by H.R. 1. The adjustment for changes in the housing stock would be simplified by raising each PHA's AEL by one-half of one percentage point, with other adjustments as necessary to account for significant changes in the number or type of units managed by a PHA. A year-end retrospective adjustment for inflation would also be made, if the actual inflation was more or less than the amount projected when subsidies were determined.

Utilities. H.R. 1 would also modify the treatment of utility costs under the PFS. First, it would extend the base period for consumption from three years to four years in 1984 and five years thereafter. Second, PHAs would receive 75 percent of the savings that result from decreases in consumption relative to the base period, instead of 50 percent as is currently the rule, to be used to finance improvements to their public housing stock. They would continue to pay 50 percent of the additional cost of rising consumption, however.

Finally, the bill would allow a PHA to include in its AEL those expenses associated with appealing utility rates that are not otherwise reimbursed. The amounts that are recovered through litigation would, however, be deducted from allowable expense levels up to the amount spent by the PHA on its appeal. Of any amounts recovered in excess of a PHA's costs, the PHA would be allowed to retain 75 percent.

Revenues. H.R. 1 would also modify the manner in which PHA revenues would be calculated. First, any income received through other federal programs, from state or local governments, or from private sources would not be counted as income in calculating a PHA's subsidy.

Second, it would require HUD to count in determining subsidies only 50 percent of the increased revenues that result from increasing occupancy rates. Thus, if a PHA had an occupancy rate of 80 percent and increased it to 90 percent, HUD would, in determining future subsidies, assume that the PHA had an 85 percent occupancy rate. H.R. 1 does not specify, however, how long this treatment would continue or how further increases or declines in future years would be calculated.

Child Care Demonstration Program

H.R. 1 would establish a \$3 million demonstration program for PHAs to develop child care programs in public housing projects. Funds would be distributed to PHAs that do not already provide such services, to be used for operating expenses and for minor repairs to the facilities to be used. PHAs would be expected to serve, in part, single-parent households to enable them to seek or train for employment and to employ, where possible, elderly tenants of public housing projects.

Removal of Units from the Public Housing Stock

H.R. 1 would also specify the process for removing units from the public housing stock by demolition, sale, or disposal. The rules would include requirements that:

- o The PHA and the unit of local government must certify their approval;
- o The project must be substantially unoccupied;
- o The cost of rehabilitation must be higher than the cost of replacement;
- o Tenants and tenant councils must be notified;
- o HUD and the PHA must have arranged relocation assistance for tenants affected; and
- o The PHA must secure funding commitments from HUD to replace units with equal numbers of newly constructed or rehabilitated ones, generally in the same neighborhood.

The rules could be waived if sound social and economic conditions for the removal of units existed, and if a majority of the tenants affected agreed.

Reporting Requirements

H.R. 1 would also require a series of annual reports as well as a special report. Each January, HUD would be required to report to the Congress on the amount of assistance estimated to be needed for the coming year, and to present any proposal it wished to make for modifying the funding mechanism. In addition, the bill would require a separate report, due in March 1984, considering and recommending ways to increase incentives for PHAs to reduce long-term costs and to increase management efficiency.

HOUSING AND COMMUNITY ACT OF 1983 (S. 1338)

The Senate Banking Committee bill, S. 1338, would modify the current subsidy system for public housing more extensively than would H.R. 1. S. 1338 would continue a performance funding system for setting operating subsidies, would require some modifications to the current system, and would establish a commission to assist the Secretary of HUD in setting management standards for public housing and other related matters. In addition, it would modify the way in which modernization and major improvements in the public housing stock were made, and the provisions for the demolition or disposition of public housing units. Operating subsidies would be set at \$1.5 billion and modernization funds at \$1.6 billion.

The Performance Funding System

Unlike H.R. 1, which would legislate the provisions of the PFS, S. 1338 would establish the general characteristics of the mechanism for setting operating subsidies but leave its implementation to the Secretary of HUD. Subsidies would be based on standards that reflect the operation of a well-managed project, taking into account the character and location of the project and the characteristics of families served. The bill would require that the system in effect at the start of any year not be changed during that year. In addition, it would:

- o Require regular adjustments to reflect changes in the cost of operating the prototype project;
- o Require annual adjustments for the difference between expected and actual rates of inflation;
- o Require PHAs to share equally with HUD any differences between projected and actual utility rates, as well as differences in consumption;

- o Count only tenants' rent payments and interest earned on such payments in setting subsidy levels, thus not reducing subsidies if PHAs receive income from other sources;
- o Eliminate subsidies for vacant units in excess of 2 percent in 1984, in excess of 1 percent in 1985, and for all vacancies beginning in 1986; and
- o Require a pro rata distribution of funds in the event that appropriated levels are less than estimated to be required for the PFS.

Management of Public Housing

S. 1338 would establish a Public Housing Performance Standards Advisory Commission to assist the Secretary of HUD in designing and applying standards for public housing management. The 13-member commission would be appointed by the Secretary on the basis of nominations by tenants, public housing managers, and local government associations. The Commission would develop and recommend standards for the efficient and professional management of public housing and also Section 8 housing assistance. It would also develop and recommend procedures for evaluating public housing authorities on the basis of these standards. In addition, the Commission would be asked to consider other issues, including ways to improve maintenance of the public housing stock, and education and training programs for public housing managers.

Modernization

S. 1338 would phase out the Comprehensive Improvement Assistance Program (CIAP) beginning in 1985 and would provide instead formula-based subsidies, to be augmented by a discretionary grant program operated by the Secretary of HUD.

Modernization funding in 1984 would be used to bring as many usable units as possible to habitability standards. CIAP would be available after that time only for public housing agencies with units that fail to meet physical quality standards. The standards to be used in making these judgments are not detailed in the bill.

Beginning in 1985, S. 1338 would replace CIAP with a formula-based, annual subsidy equal to 15 percent of nonutility operating expenses. In addition, the Secretary of HUD would be directed to establish a major

systems replacement fund, to be used for major repairs, replacement of building systems, or major management system improvements. The specific activities to be financed through this fund would be determined by the Secretary in consultation with the Commission.

Demolition and Disposition of Public Housing Units

S. 1338 would set standards governing the removal of units from the public housing stock. Public housing authorities proposing the removal of units from the stock would be required to develop their proposals in consultation with affected tenants and with local government officials and to arrange suitable housing accommodations for tenants who would be displaced by the agency's proposals.

The Secretary of HUD would be required to approve all proposals to remove units from the public housing stock. Proposals to demolish projects could be approved if the project was obsolete and if modifications returning it to useful life were not feasible. Parts of projects could be demolished if obsolete and if the loss of units would help ensure the viability of remaining units. Proposals to dispose of units, by sale or other means, could be approved if the area surrounding the project was adversely affecting the health and safety of tenants or the operation of the project; or if the disposition of the project would allow the acquisition or rehabilitation of other projects that would more efficiently serve low-income households; or if other factors made the disposition in the best interest of tenants. Proceeds from the disposition of units would be required to be used for payment of the outstanding obligations associated with the project and, if sufficiently large, for the provision of additional housing assistance to low-income families.

