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United States General Accounting Office
Washington, DC 20548

July 18, 2001

Congressional Committees

Subject: Federal Housing Programs: What They Cost and What They Provide

This letter provides our interim response to a mandate in the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276) requesting that we compare the total per-unit costs of various housing assistance programs, taking into account qualitative differences in the housing and services provided. We previously briefed your office on our key interim findings (see enc. I). This letter summarizes these findings and discusses several of the policy issues they raise.

In fiscal year 1999, the federal government provided housing assistance to about 5.2 million renter households¹ at a cost of about \$28.7 billion in budgetary outlays and tax credits. During the same year, almost 9 million very-low-income renter households who qualified for housing assistance did not receive it because of other budgetary priorities and constraints. This year was not unusual: The federal government has never provided housing assistance as an entitlement for all households that qualify for aid. Instead, the Congress has traditionally appropriated funds for assisting a specific number of new households each year, as well as for renewing assistance for those households already served by various federal housing programs.

Of the \$28.7 billion in federal housing subsidies provided in fiscal year 1999, over \$15 billion supported housing units developed under production programs that no longer receive appropriations to produce new or rehabilitated units. While maintaining the inventory of units produced under these inactive programs is an important goal of federal housing policy, our analysis for this report focused, as requested, on six programs that continue to increase the number of households assisted by the federal government: the housing voucher program, which is the largest source of federal funds for housing assistance, and five production programs, which currently receive federal funds to produce new or rehabilitated units.² Of these production programs, the Low-Income Housing Tax Credit program is by far the largest, accounting for over 80 percent of the new units produced in 1999. The six programs we analyzed are as follows:

Housing Voucher – supplements tenants' rental payments in privately owned, moderately priced apartments chosen by the tenants.

Low-Income Housing Tax Credit – provides tax incentives for private investment in the production of new and rehabilitated affordable housing units consistent with state-determined housing priorities.

¹Of these 5.2 million renter households, 4.3 million have very low incomes (50 percent or less of area median income) and 900,000 have low incomes (51 to 80 percent of area median income).

²This analysis does not include the HOME program because HOME funds are often used in conjunction with other housing programs, including the ones covered in this analysis.

HOPE VI – revitalizes severely distressed public housing, funds community and supportive services, and promotes mixed-income communities.

Section 202 – develops supportive housing for the elderly.

Section 811 – develops supportive housing for persons with disabilities.

Section 515 – develops family and elderly housing in rural areas, sometimes including space for community-based supportive services.

In this letter and enclosure, we compare the total per-unit costs of providing housing under these six programs and, for each program, identify the share of the total per-unit cost borne by the federal government; the assisted household; and other sources, including state and local governments and private organizations. Finally, we compare the types of housing and services provided and the populations served under the six programs. Our cost comparisons for these six programs focus on national averages. More detailed information on total per-unit costs in seven local markets appears in enclosure I.

To make comparisons, we collected detailed information on each of the six housing assistance programs, focusing on costs and housing characteristics. Because there is no central database on most of these housing programs, we contacted federal agencies, local housing authorities, and a private research firm to construct our database.³ In addition, we visited representative properties in several metropolitan areas to observe qualitative differences in the housing and services provided under each of the programs. We also interviewed property managers and developers. To construct cost estimates that are comparable across the six programs, we accounted for differences in the structure and timing of the subsidies in each program. For all six programs, we estimated the first-year costs and 30-year life-cycle costs.⁴ Interviews with housing finance experts confirmed the reasonableness of our methodology.

Comparative Cost Analysis

In summary, production programs are more expensive than housing vouchers. Nationally, we estimate that the total per-unit costs for housing production programs are from 32 to 59 percent greater than for housing vouchers in the first year and from 12 to 27 percent greater over 30 years – the life cycle we assumed for units of similar size (see table 1).⁵ Our findings were similar for seven local housing markets but were limited to

³City Research, an urban economics research firm in Boston, analyzed the tax credit program using a national database it constructed for a previous study.

⁴Life-cycle cost is the total cost of owning, operating, and maintaining a property over its useful life. In this analysis, we assume a useful life of 30 years.

⁵We used two approaches for calculating these percentages, both of which enabled us to control for general location (metro or nonmetro) and unit size (number of bedrooms). In both cases, we used vouchers as the benchmark for our cost comparisons because the voucher program is the largest federal housing assistance program. Under the first approach, we adjusted average voucher costs for comparability with the general location and average unit size for each of the production programs. The results of this approach appear in table 1. Under another approach, we compared costs across six programs for units in the same general location with the same number of bedrooms. For example, we found that in metro areas the first-year costs of tax credit, Section 202, and Section 811 one-bedroom units were about 136, 141, and 138 percent greater, respectively, than the first-year costs of one-bedroom voucher units. Ideally, we would have controlled more fully for structural amenities (e.g., square footage of unit, parking, and common areas) and

the tax credit, Section 202, and Section 811 programs – the only programs for which we had sufficient local market data (see enc. I).

Table 1: Total Production Program Cost as a Percentage of Total Voucher Cost

Program	First year	Life cycle (30 years)
Low-Income Housing Tax Credits	132%	116%
HOPE VI ^a	159	127
Section 202	145	119
Section 811	138	112
Section 515	142	125

^aHOPE VI costs include only housing-related construction costs.

Source: GAO analysis of federal, state, local, and private databases.

Our cost estimates for the production programs are conservative because they are not adjusted to reflect the property tax abatements that localities often provide for affordable housing. In addition, our HOPE VI estimates do not include any funding for capital reserves; for the other four production programs, the adequacy of the capital reserves to meet future capital needs is unknown. Historically, however, housing production programs have underfunded capital reserves. On the basis of very limited information, we estimate that these omissions could increase our total costs estimates by around 10 percent.⁶

Average costs can mask considerable variation in the costs of individual properties developed under the same program. For example, the tax credit program has produced in the same area some units that cost about the same or less than vouchers and other units that cost about twice as much. To understand this wide variation in per-unit costs, more work needs to be done on the determinants of development costs and the current cost containment guidelines.

The federal government provides the bulk of the subsidies for all the housing assistance programs (see table 2). When vouchers serve households of similar average incomes in units with the same average number of bedrooms as production programs, we estimate that the federal cost of serving households under the production programs is from 49 to 65 percent greater than it would be under vouchers. We estimate that the federal life-cycle cost is from 15 to 38 percent greater than under vouchers.

neighborhood characteristics (e.g., crime rate and quality of public services such as schools), but these data were not available for most of the programs.

⁶Industry officials suggest that an annual set-aside of \$200 to \$600 per unit would be required to meet future capital needs. The 1999 American Housing Survey estimates the national average property tax rate is \$11 per \$1,000 in property value. If these averages were applied to a worst-case scenario, under which significant tax abatements and no payments to reserves were made, the first-year cost would be understated by about 10 percent. This scenario is most applicable to our data for the HOPE VI program, which include no funding for capital reserves and virtually no allowances for property tax payments. Under the other four production programs, many projects fund capital reserves and pay full property taxes. For these programs, our potential understatement of costs is likely to be less than 10 percent.

Table 2: Federal Cost of the Production Programs as a Percentage of the Federal Cost of Vouchers

Program	First year	Life cycle (30 years)
Low-Income Housing Tax Credits	150%	119%
HOPE VI ^a	162	124
Section 202	165	125
Section 811	149	115
Section 515	160	138

^aHOPE VI costs include only housing-related construction costs.

Source: GAO analysis of federal, state, local, and private databases.

Across the six programs, the federal government and tenants pay the majority of the total costs of federal housing assistance programs. Tenants contribute between 18 percent (HOPE VI) and 46 percent (tax credits) of the total housing costs in the first year. In general, households that pay a smaller percentage of the per-unit costs either have smaller incomes or live in units that are costlier than average (or both conditions apply, as often happens for HOPE VI). Conversely, households that pay a higher percentage of the per-unit costs typically have higher incomes or are allowed to pay a larger percentage of their income for rent (or, again, both conditions apply, as happens for the tax credit program). State and local governments and private sources, on average, provide 10 and 14 percent for the tax credit and HOPE VI programs, respectively, and smaller contributions (2 to 6 percent) for the other production programs. These sources do not contribute to the voucher program.

Observations

If costs were the only consideration, our estimates would suggest that the production programs should be replaced with vouchers. However, in many markets, production programs are the only sources of new affordable rental units, and use restrictions will keep these units affordable for decades to come, limiting the impact of market forces on the supply of affordable units. Additionally, there are substantial differences in the housing and services provided under each of the production programs that must be considered. For example, under the Section 202 and Section 811 programs, the elderly and disabled often receive services not easily provided in private housing. These services can be particularly important for older, frailer elderly or for those with more severe disabilities, for whom housing vouchers are probably not a reasonable alternative. As the nation's population ages, production programs for the elderly may become an even more important part of national housing policy. Finally, in many urban areas, the production programs have formed an integral part of an overall community development strategy, as is a goal of the HOPE VI program. As a matter of public policy, the benefits of increasing the supply of affordable units, providing additional services for special needs populations, and revitalizing distressed communities must be weighed against the alternative benefits of serving more households at a lower average cost through the provision of vouchers.

Agency Comments

We provided a draft of this report to HUD, the U.S. Department of Agriculture, and the National Council of State Housing Agencies for their review and comment. Noting that the report is an interim product and does not contain a detailed discussion of our methodology, the agencies and the Council said they would wait to comment on our approach until they have reviewed our final report. However, they raised several broad

issues, including whether we had sufficiently considered the difficulty of using vouchers in certain markets, appropriately estimated the extent to which replacement reserves are underfunded, and adequately accounted for the benefits of the newer, often higher-quality housing and services provided by the production programs compared with vouchers. HUD also suggested that we provide an additional life-cycle analysis over a shorter time period – such as 15 years – in part because projecting costs 30 years into the future involves too many uncertainties. We recognized the importance of these and other issues raised by the agencies and the Council and took them into account in developing our methodology and analysis. While we provided some additional discussion of these issues in this interim report in response to the comments received, we will reserve detailed explanations for our final report. The agencies and the Council offered additional technical comments and clarifications, which we incorporated as appropriate.

We are planning to issue a more detailed analysis of the costs and characteristics of federal housing assistance programs later this year. It will expand on the information provided in this report. We performed our work from January 2000 through May 2001 in accordance with generally accepted government auditing standards.

If you have any further questions, please call me at (202) 512-7631. Key contributors to this report were Dennis Fricke, Daniel Garcia-Diaz, and Elizabeth Eisenstadt. External consultants Denise DiPasquale and Jean L. Cummings, City Research, and Edgar O. Olsen, Department of Economics, University of Virginia, also contributed to this report.

A handwritten signature in black ink that reads "Stanley J. Czerwinski". The signature is written in a cursive, flowing style.

Stanley J. Czerwinski
Director, Physical Infrastructure

Enclosure

List of Committees

The Honorable Jack Reed
Chairman
The Honorable Wayne Allard
Ranking Minority Member
Subcommittee on Housing
and Transportation
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Barbara A. Mikulski
Chairwoman
The Honorable Christopher S. Bond
Ranking Minority Member
Subcommittee on Veteran Affairs, HUD, and Independent Agencies
Committee on Appropriations
United States Senate

The Honorable Marge Roukema
Chairwoman
The Honorable Barney Frank
Ranking Minority Member
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
House of Representatives

The Honorable James T. Walsh
Chairman
The Honorable
Allan B. Mollohan
Ranking Minority Member
Subcommittee on VA, HUD, and Independent Agencies
Committee on Appropriations
House of Representatives



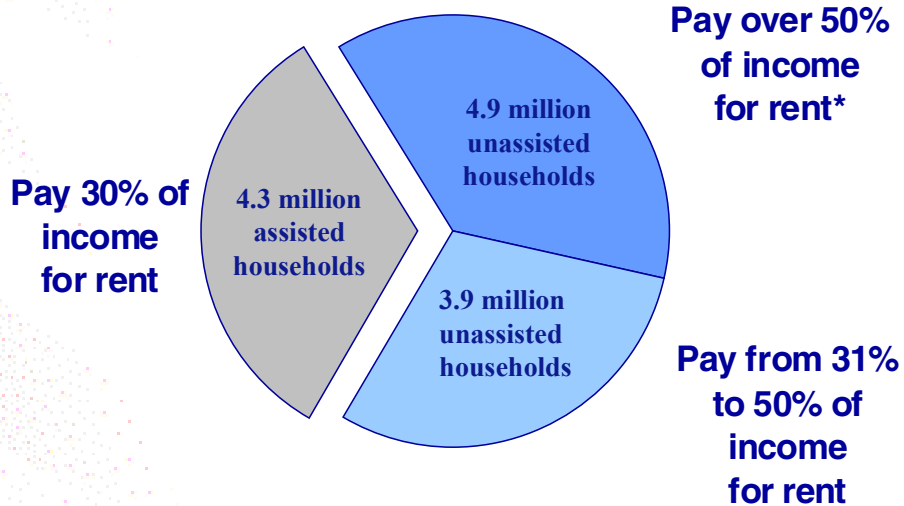
Federal Housing Assistance Programs

Costs and Housing Characteristics

Contents

- Background: Housing Affordability and Federal Resources
 - Methodology and Data Limitations
 - Program Characteristics and Costs
-

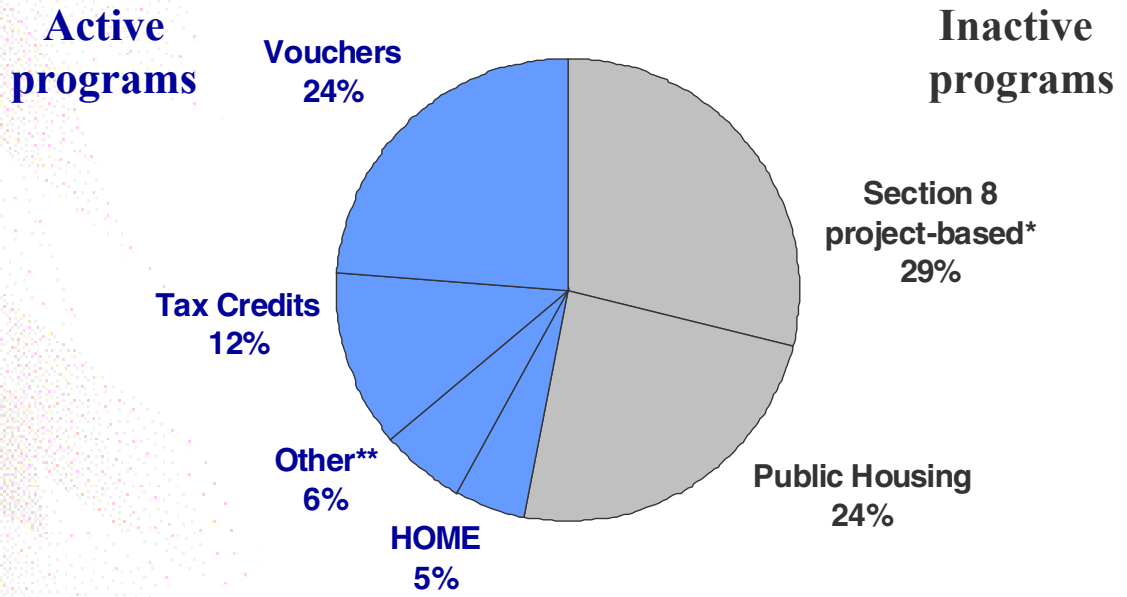
About One-Third of Eligible Very-Low-Income Renter Households Receive Housing Assistance



* HUD characterizes these households as having "worst-case housing needs."

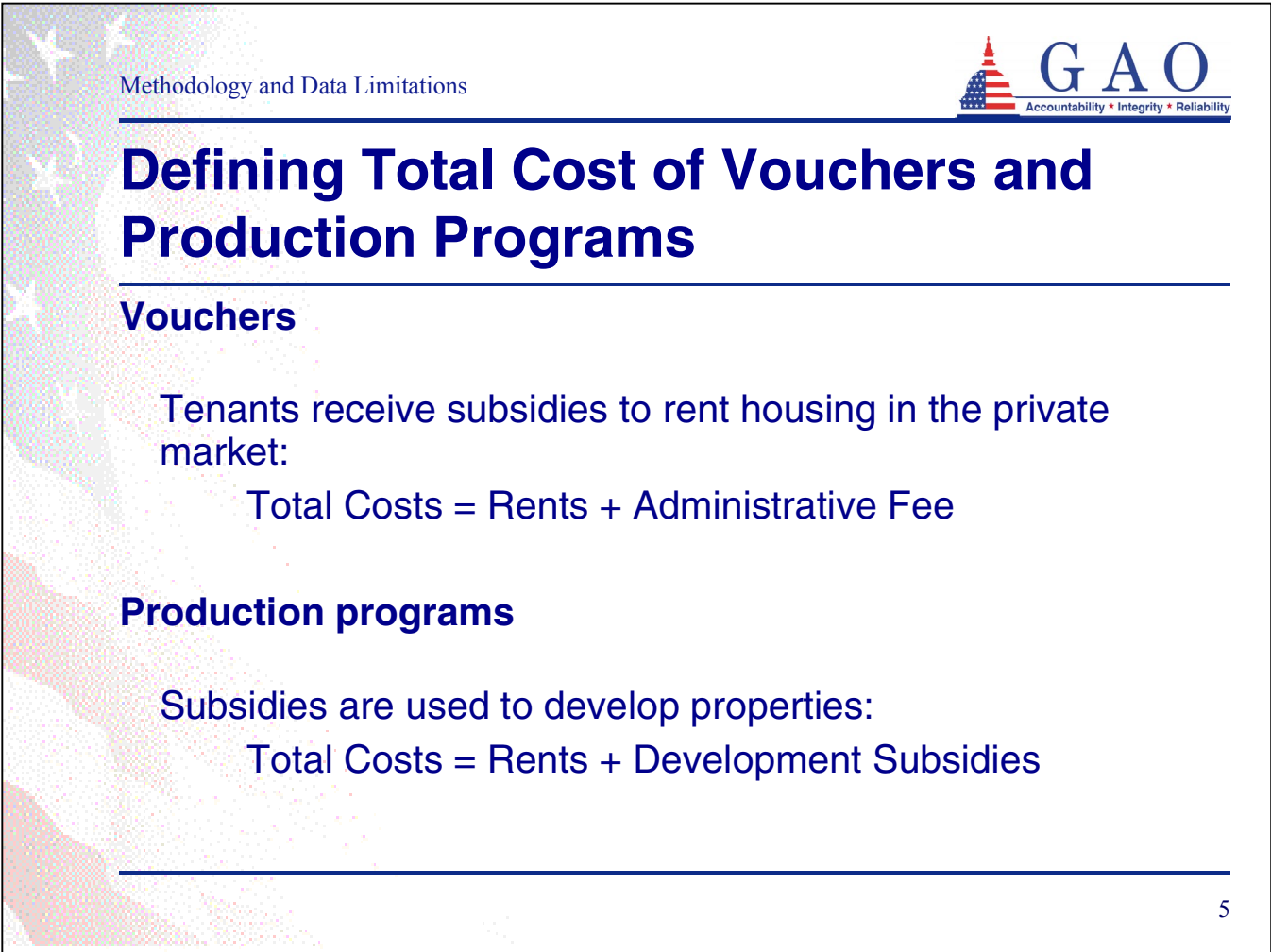
Sources: GAO's analysis of program data and HUD's analysis of *American Housing Survey, 1999*.

Federal Government Spent About \$29 Billion for Housing Assistance in FY 1999




*Includes expenditures for New Construction/Substantial Rehabilitation, Loan Management Set-Aside, Property Disposition, Section 236, Rental Assistance Payment, and Rent Supplement.

**Includes expenditures for HOPE VI, Section 202, Section 811, Section 515, and Section 521.



Methodology and Data Limitations



Defining Total Cost of Vouchers and Production Programs

Vouchers

Tenants receive subsidies to rent housing in the private market:

$$\text{Total Costs} = \text{Rents} + \text{Administrative Fee}$$

Production programs

Subsidies are used to develop properties:

$$\text{Total Costs} = \text{Rents} + \text{Development Subsidies}$$

5

Estimating Total Cost of Vouchers and Production Programs

Vouchers and production programs

- Rents are paid over multiple years, and development subsidies are paid up-front or over multiple years.

First-year costs

- Converted the present value of the development subsidies to an annual payment and added the annual rent.

Life-cycle costs

- Added the present value of the rents over 30 years and the present value of the development subsidies.
-

The Federal Government, Assisted Household, and Other Sources Pay for Rents and Total Development Costs

Vouchers

- Total costs are shared by the federal government and assisted household. Federal government pays the difference between the unit's market rent and the household's payment (generally 30 percent of adjusted income).
- Lower household incomes produce higher federal subsidy costs.

Production programs

- Total costs are shared by the federal government; assisted household; and other sources, including state and local governments and private organizations.
 - Higher development subsidies respond to higher development costs in certain markets. They may also produce lower rents and/or additional amenities.
-

Cost Risks Over Time: Vouchers and Production Programs

Rent inflation

- Vouchers: Market forces determine their costs. In tight housing markets, rents can escalate rapidly, increasing federal costs.
- Production programs: Program regulations and development subsidies can limit the impact of rent inflation.

Capital needs

- Vouchers: The federal government faces no long-term cost risk associated with the underfunding of capital needs.
 - Production programs: Programs have historically underfunded capital needs, resulting in physical deterioration and additional federal costs.
-

Key Housing Characteristics Influence Program Costs

- Location (neighborhood characteristics and public services)
- Building type
- Unit size
- Quality
- New construction versus rehabilitation
- Amenities and supportive services

Estimating Cost Effectiveness of Housing Programs

Data required

- With complete data on property characteristics, we could determine programs' cost-effectiveness by comparing the actual cost incurred with the value of the housing and services provided.

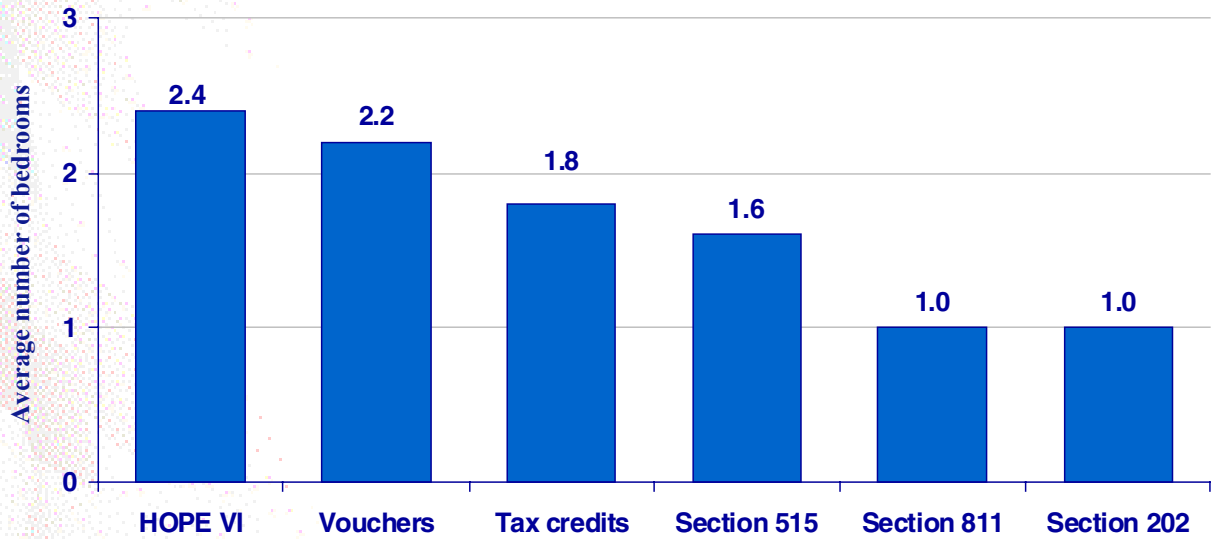
Data limitations

- While we have detailed data on location, unit size, and tenant income, data on many important characteristics, such as building type, quality, amenities, or services, are not readily available.

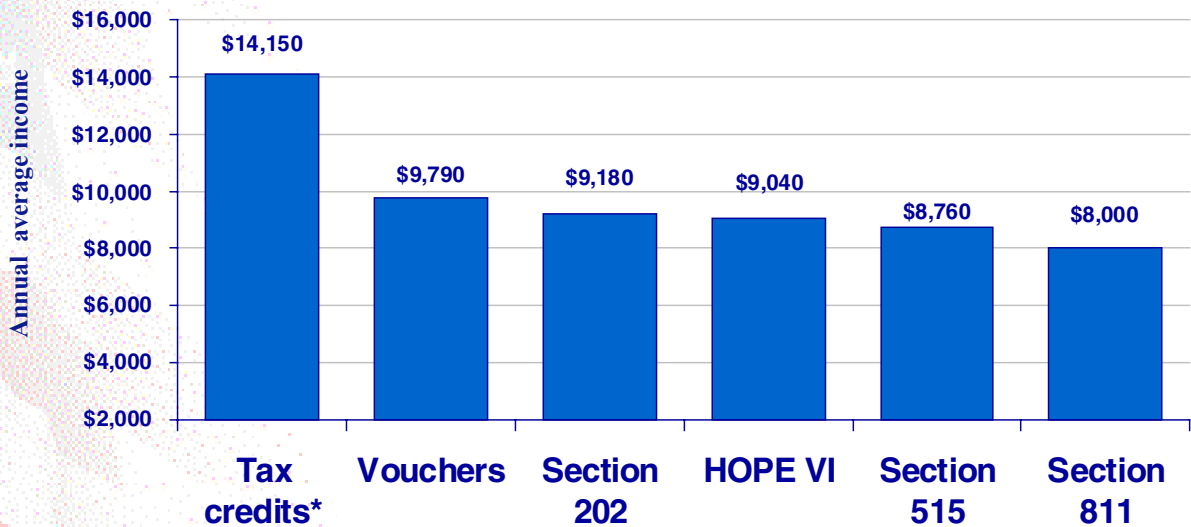
Data employed

- In this presentation, we controlled for
 - unit size,
 - tenant income, and
 - general location.

Housing Characteristics We Can Control for: Average Unit Size

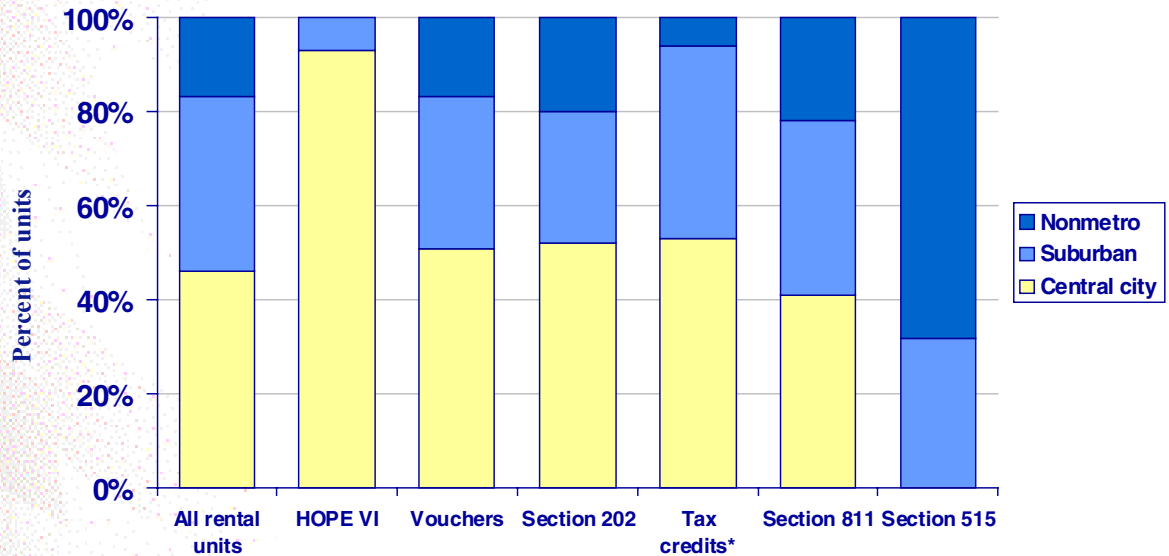


Housing Characteristics We Can Control for: Average Gross Household Income



*The average income for tax credit households is somewhat misleading since there are two distinct types of households. We estimate that approximately 40 percent of tax credit households received rental assistance. These households had an average income of about \$8,350 in 1999 dollars. For households who did not receive rental assistance, we estimate an average income of about \$17,750.

Housing Characteristics We Can Control for: General Location of Assisted Units



*Tax credit units with Section 515 mortgages are excluded. If included, the share of units in nonmetro areas would increase from 6 to 22 percent.

Housing Vouchers Offer Choice in Existing Housing

- Provide households with choice in a wide variety of locations and building types, including single-family homes.
- Property median age is about 35 years.
- Do not generally pay for supportive or social services.

Voucher Program: Suburban Walk-Up Apartment



Size: One- and two-bedroom units

Age: About 30 years

Location: Baltimore

Voucher Program: Three-Story Central City Apartment

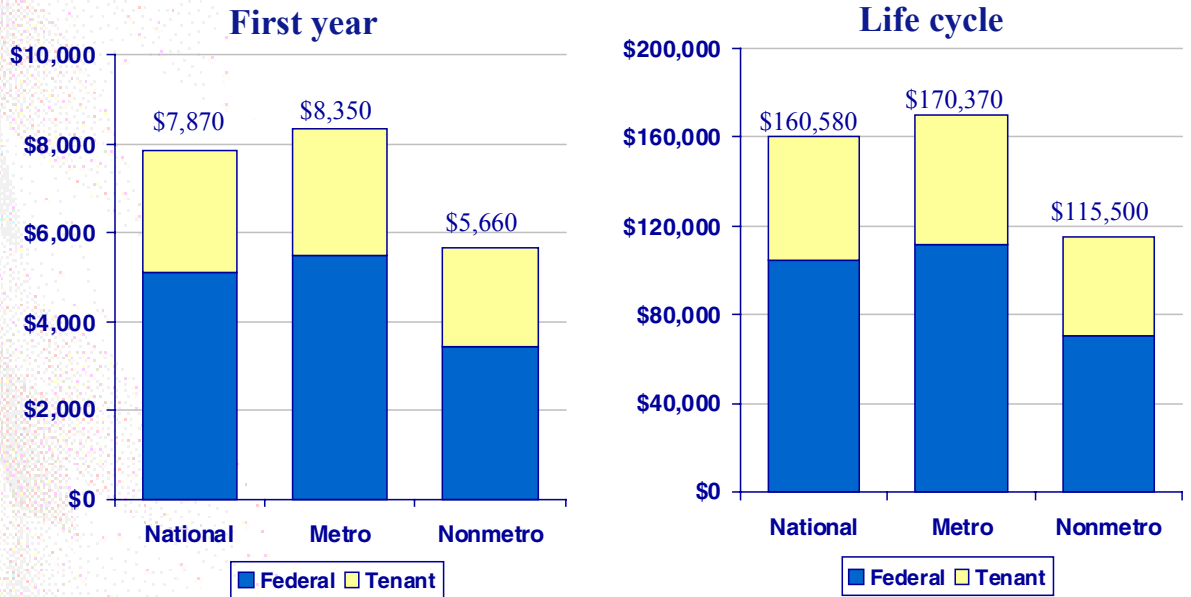


Size: Two-bedroom units

Age: 80 years

Location: Boston

Cost of Vouchers Varies by General Location



Note: About 7 percent of all vouchers are used in federally subsidized properties, primarily tax credit and Section 515 properties. We estimate that the subsidy cost associated with these properties would add around \$200 in the first year and about \$2,600 over the life cycle to the total cost of vouchers.

States Target Tax Credits to Address Housing Priorities

- Serve different populations in a wide variety of locations and building types.
- Produce new or rehabilitated housing.
- Respond to state-determined housing priorities.
- Offer supportive and social services by property, not by program.

Tax Credits: Central City High-Rise Apartment



Size: Efficiency; one-, two-, and three-bedroom units

Age: Newly constructed in 1995

Location: San Francisco

Tax Credits: Suburban Single-Room Occupancy for the Homeless



Size: One-room units

Age: Rehabilitated in
1999

Location: Baltimore

Tax Credits: Rural Walk-Up Apartment

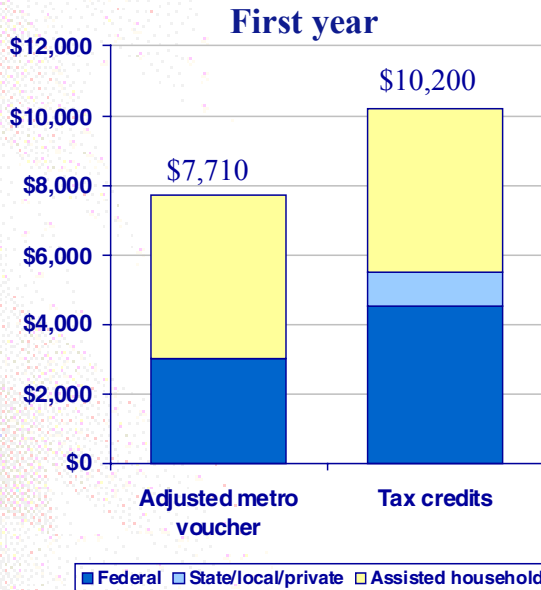


Size: One- and two-bedroom units

Age: Newly constructed in 1995

Location: Lake Pointe, Conway, AR

Total and Federal Per-Unit Costs Are Higher for Tax Credits Than for Vouchers



- Voucher cost is adjusted to reflect smaller average unit size and higher average household income under tax credits.
- First-year total cost is about 32% greater for tax credit units than for adjusted vouchers. (Life-cycle cost is about 16% greater.)
- Federal cost is about 50% greater for tax credit units than for vouchers. (Life-cycle federal cost is about 19% greater.)

Note: Cost estimate of tax credits does not account for the subsidy cost of property tax abatements or any underfunding of replacement reserves. Tax credit properties that received Section 515 loans are excluded from this analysis.

HOPE VI Replaces and Revitalizes Distressed Public Housing

- Serves households in blighted urban neighborhoods, predominantly in town houses and walk-up apartments.
- Transforms distressed and obsolete public housing through demolition and new construction.
- Leverages public and private funds.
- Promotes mixed-income communities and economic development.
- Provides comprehensive supportive and social services.

HOPE VI: Central City Walk-Up Apartments



Size: One-, two-,
three-, and four-
bedroom units

Age: Phased
construction, 1997-
2001

Location: Atlanta

HOPE VI: Central City Town House Apartments



Before

Size: One-, two-, three-, and four- bedroom units

Age: Phased construction, 1998-2000

Location: Boston



After

HOPE VI: Central City Town House Apartments



Size: One-, two-, three-, and four-bedroom units

Age: Newly constructed in 2000

Location: Baltimore

HOPE VI: Children's Computer Laboratory and New Local Business



Service: On-site learning center

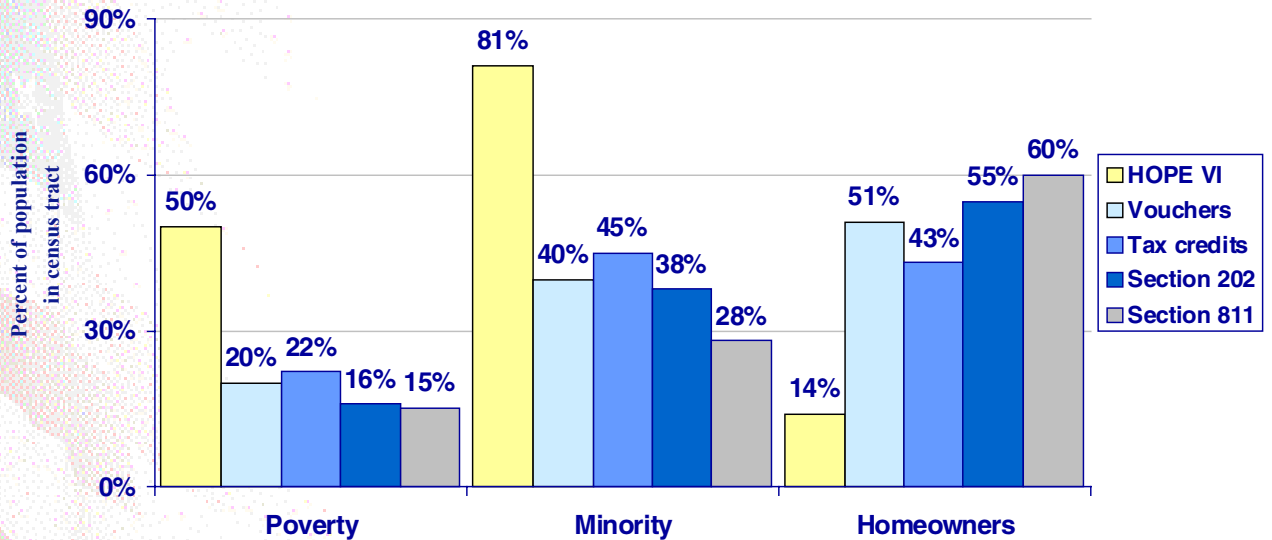
Location: El Paso

Service: Newly located retail pharmacy store

Location: Baltimore

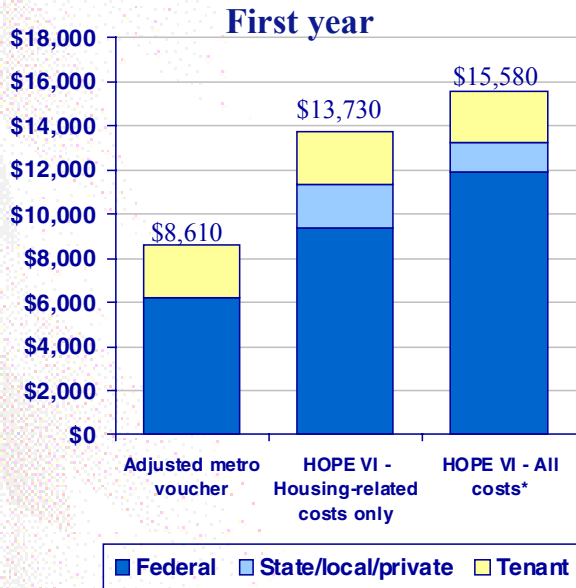


HOPE VI Takes Proactive Role in Economic Development by Locating Properties in Poor, Mostly Minority Neighborhoods With Little Homeownership



Note: Data for Section 515 are not readily available.

Total and Federal Per-Unit Costs Are Higher for HOPE VI Than for Vouchers



- Voucher cost is adjusted to reflect larger average unit size and lower average household income under HOPE VI.
- First-year total housing-related costs are about 59% greater for HOPE VI units. (Life-cycle cost is about 27% greater.)
- Federal cost for housing-related expenses is about 62% greater for HOPE VI units. (Life-cycle federal cost is about 24% greater.)
- When all costs for HOPE VI are included, first-year total cost is about 81% greater than vouchers, and federal cost is about 62% greater.

Note: Cost estimate of HOPE VI does not account for the subsidy cost of property tax abatements or the funding of replacement reserves.

* This estimate of total cost includes the costs of remediation, demolition, construction of housing and community facilities, relocation, and community-based planning and participation, most of which are not applicable to the other housing programs.

Section 202 Provides Predominantly New Housing for the Elderly

- Serves only the elderly in a wide variety of locations, primarily in elevator buildings.
- Produces mostly new housing.
- Provides one-bedroom units.
- Makes supportive and social services available.

Section 202: Suburban Elevator High-Rise Apartments for the Elderly



Size: 86 one-bedroom units

Age: Newly constructed in 1997

Location: Baltimore

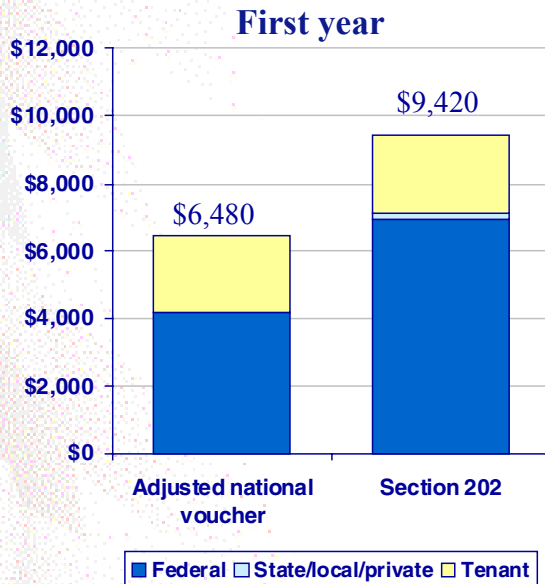


Section 202: Suburban Elevator Apartments for the Elderly



Size: 59 one-bedroom units
Age: Newly constructed in 1996
Location: Fort Worth

Total and Federal Per-Unit Costs Are Higher for Section 202 Than for Vouchers



- Voucher cost is adjusted to reflect smaller average unit size and lower average household income under Section 202.
- First-year total cost is about 45% greater for 202 units. (Life-cycle cost is about 19% greater.)
- Federal cost is about 65% greater for 202 units. (Life-cycle federal cost is about 25% greater.)

Note: Cost estimate of Section 202 does not account for the subsidy cost of property tax abatements or any underfunding of replacement reserves.

Section 811 Provides New and Rehabilitated Housing for Persons With Disabilities

- Serves persons with disabilities in a wide variety of locations, primarily in group homes and independent living projects.
- Provides both new and rehabilitated housing.
- Makes supportive and social services available.

Section 811: Suburban Independent Living Project for Persons With Mental Disabilities



Size: 15 one-bedroom units

Age: Rehabilitated in 1998

Location: Baltimore

Section 811: Suburban Single-Family Group Home for Persons With Mental Disabilities

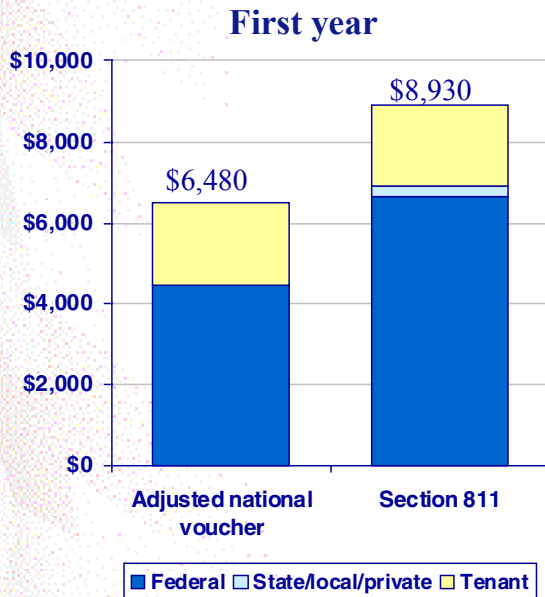


Size: One of two three-bedroom homes

Age: Rehabilitated in 1999

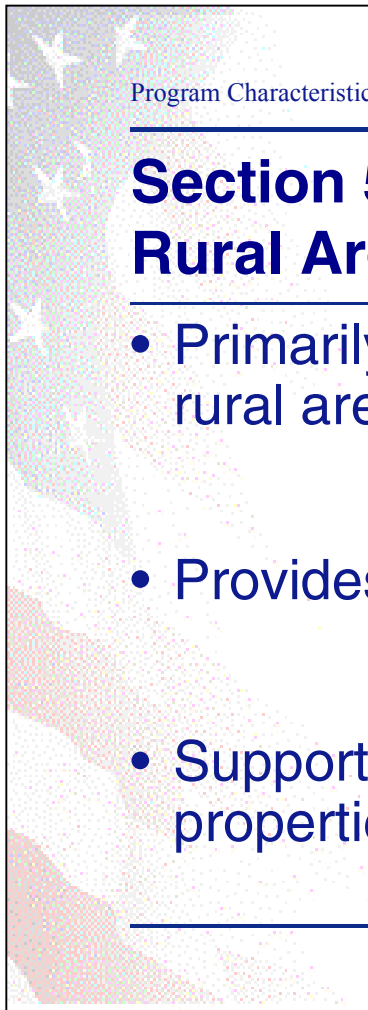
Location: Fort Worth

Total and Federal Per-Unit Costs Are Greater for Section 811 Than for Vouchers




- Voucher cost is adjusted to reflect smaller average unit size and lower average household income under Section 811.
- First-year total cost is about 38% greater for 811 units. (Life-cycle cost is about 12% greater.)
- Federal cost is about 49% greater for 811 units. (Life-cycle federal cost is about 15% greater.)

Note: Cost estimate of Section 811 does not account for the subsidy cost of property tax abatements or any underfunding of replacement reserves.



Program Characteristics and Costs



Section 515 Makes Housing Available in Rural Areas

- Primarily serves families and the elderly in rural areas, generally in walk-up apartments.
- Provides mostly new housing.
- Supportive and social services vary with the properties and populations served.

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Section 515: Rural Walk-Up Apartment for the Elderly



Size: One-bedroom units

Age: Newly constructed in 1998

Location: Wachusett, MA

Section 515: Rural Housing for Families

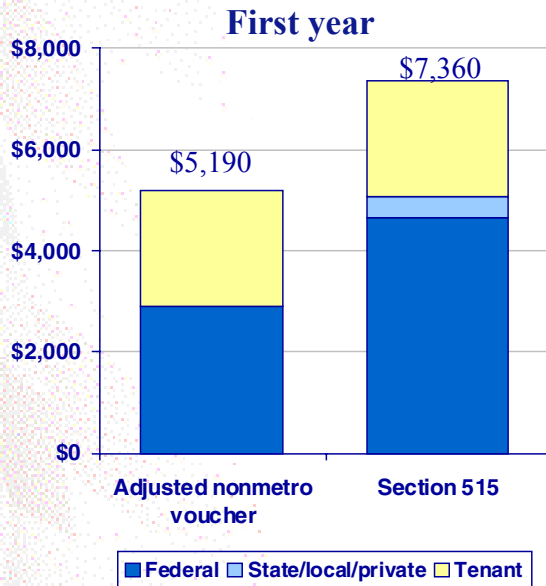


Size: Two-bedroom units

Age: Newly constructed in 1994

Location: Nelsonville, OH

Total and Federal Per-Unit Costs Are Higher for Section 515 Than for Vouchers

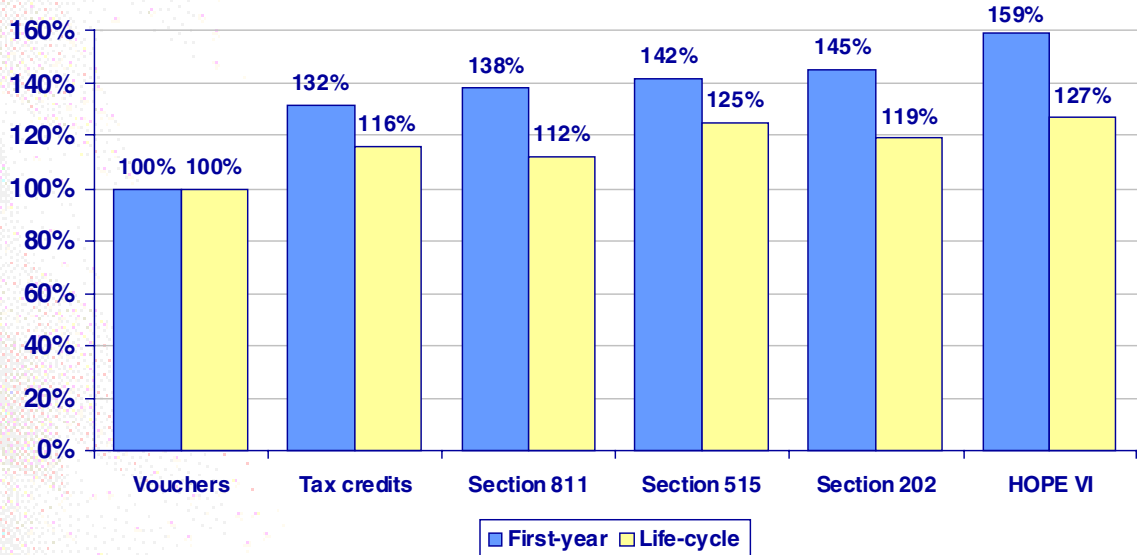


- Voucher cost is adjusted to reflect smaller average unit size and lower average household income under Section 515.
- First-year total cost is about 42% greater for 515 units. (Life-cycle cost is about 25% greater.)
- Federal cost is about 60% greater for 515 units. (Life-cycle federal cost is about 38% greater.)

Note: Cost estimate of Section 515 includes tax credits but does not account for the subsidy cost of property tax abatements or any underfunding of replacement reserves. For 515 properties without tax credits, average total cost decreases to about \$6,920 in the first year. This is about 35 percent greater than vouchers and 20 percent greater over the life cycle. At \$6,920, the federal cost is about 50 percent greater than vouchers and 28 percent greater over the life cycle.

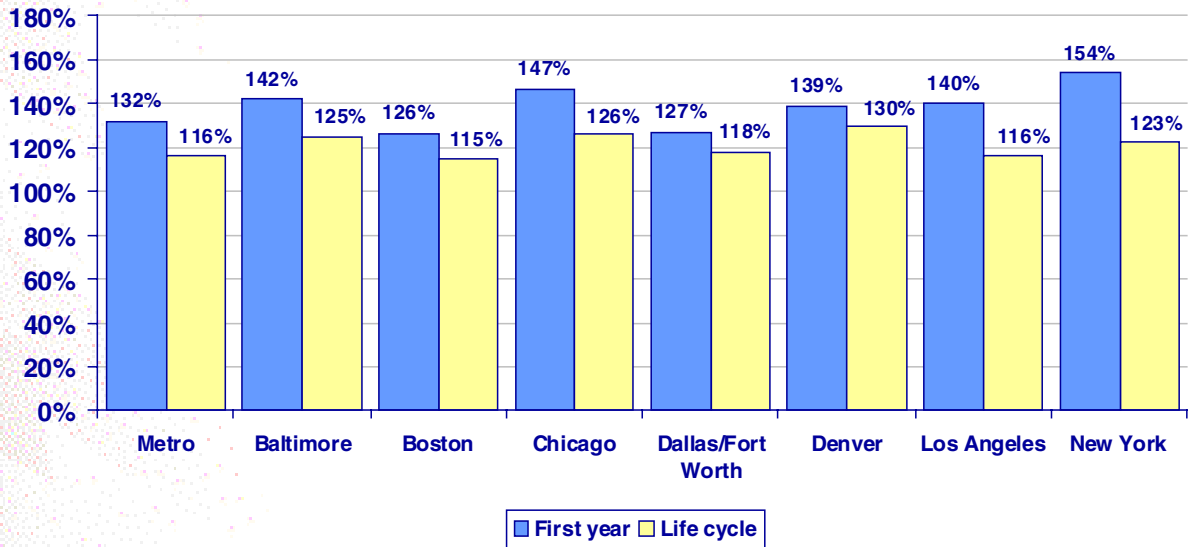
Comparison of Total Cost Between Production Programs and Vouchers After Adjustments for Unit Size

Production program cost as percent of voucher cost



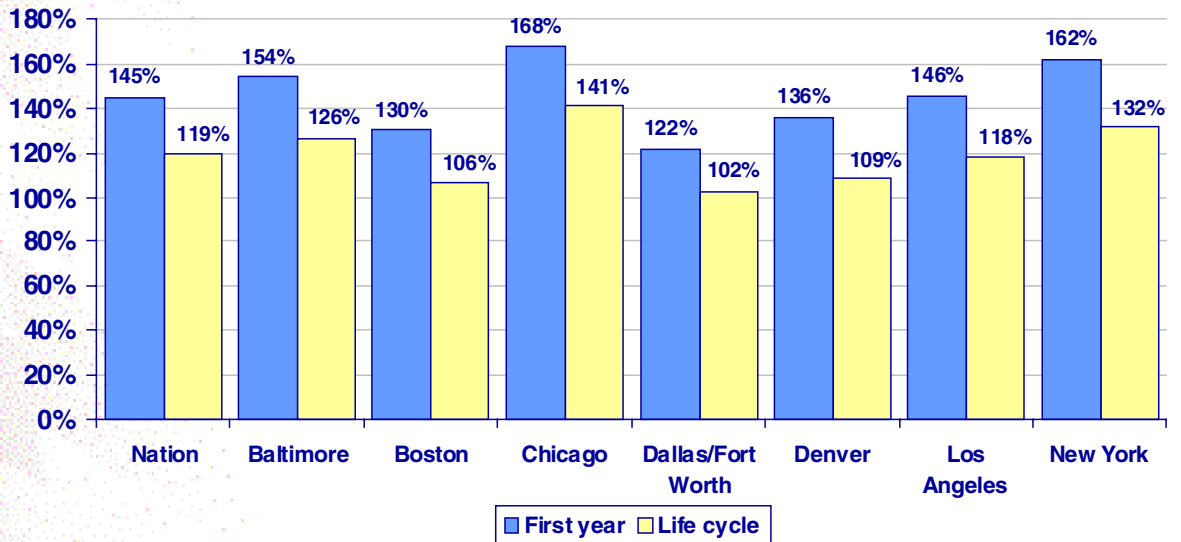
Comparison of Total Cost Between Tax Credits and Vouchers After Adjustments for Unit Size, by Location

Tax credit cost as percent of voucher cost



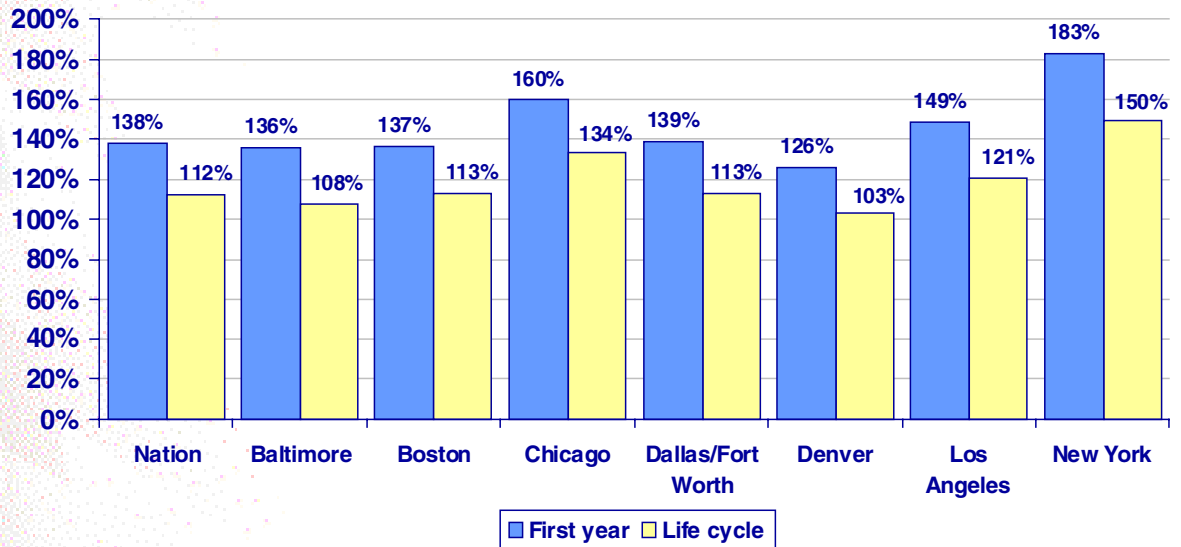
Comparison of Total Cost Between Section 202 and Vouchers After Adjustments for Unit Size, by Location

Section 202 cost as percent of voucher cost

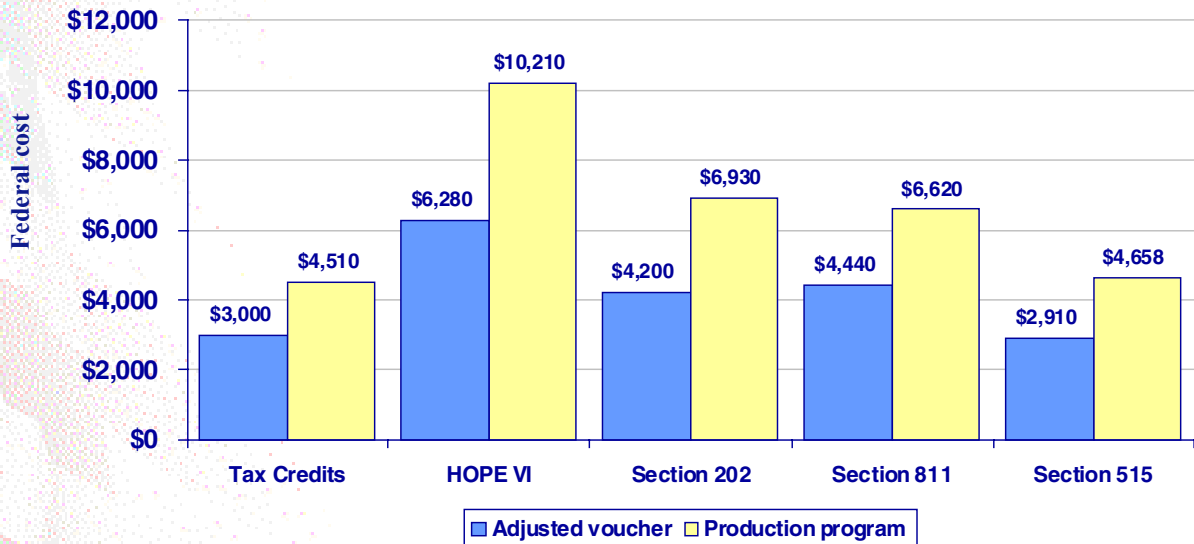


Comparison of Total Cost Between Section 811 and Vouchers After Adjustments for Unit Size, by Location

Section 811 cost as percent of voucher cost



Comparison of Federal Cost for Production Programs and Vouchers Adjusted for Unit Size and Household Income



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