



Office of Public and Indian Housing

**Public Housing Operating Subsidies -
Harvard Cost Study**

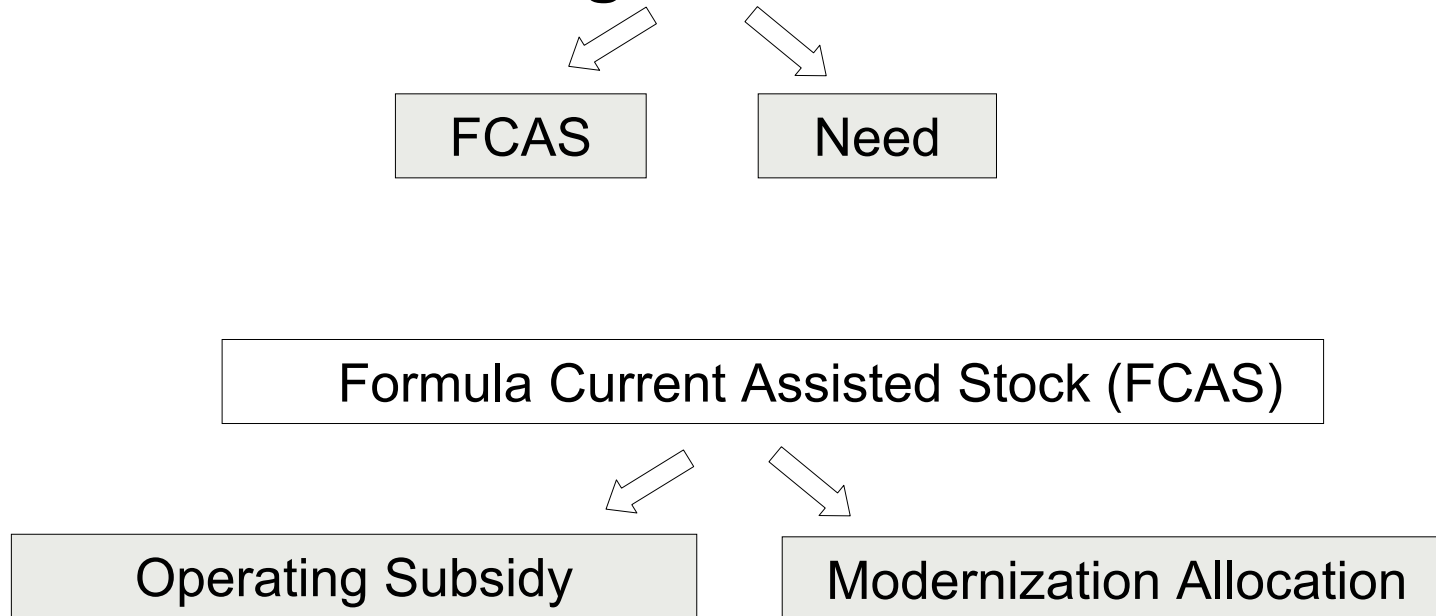
June 16, 2003

Agenda



- Indian Housing Block Grant Formula
- Operating Subsidy Fund Overview
- Harvard Cost Study
- Harvard Costs Study Caveats/Results
- Questions/Comments

Indian Housing Block Grant Formula



Of the amount appropriated, FCAS is funded first; any remaining monies are used to address the Need component.



Operating Subsidy Fund Overview

Operating Subsidies Fund provides funding to support a reasonable level of maintenance, utilities, protective and other services for lower-income families.

- \$3.5 billion annual appropriation.
- More than 3,000 Public Housing Authorities (PHAs).
- Administering roughly 1.25 million rental units.

Operating Subsidies Formula

$$\text{Operating Subsidy} = \text{Total Allowable Expense Level (AEL)} + \text{Utilities Expenses} - \text{Tenant Rental Income}$$

- Allowable Expense Level. The per unit month dollar amount of allowable non-utility expenses for each PHA.
- Utility Expenses. The per unit month dollar amount of allowable non-utility expenses (rate and consumption) for each PHA.
- Tenant Rental Income. The per unit month dollar amount of dwelling rental income.



Current Allowable Expense Level (AEL)

- The AEL is based on a 1975 HUD-approved operating expense level.
- AEL is inflated annually.
- AEL is calculated at the PHA level.

Harvard Cost Study



- Section 519 of the Quality Housing and Work Responsibility Act of 1998 (QHWRA) required HUD to develop a new Operating Subsidy and Capital Fund Formula under negotiated rulemaking.
- The Conference Report of the 1999 HUD Appropriations bill instructed HUD to Contract with Harvard to complete a Study.
- The Harvard Cost Study's goal was to determine the cost of operating a well-run public housing authority.
- Harvard began work in May 2000 and published its final report in June 2003.



Harvard Cost Study Approach

- Benchmark public housing operating costs to other Federally assisted housing programs governed by similar regulations.
- Harvard chose the FHA database because of:
 - Comparable number of units (1.5 million FHA vs. 1.25 million public housing).
 - Similar number of properties (14,000 FHA vs. 14,000 public housing).
 - Serves similar residents in similar neighborhoods.
 - Availability of audited project level financial data from FHA owners
- Harvard performed a series of statistical analyses to determine what elements of a property drive operating costs.

Harvard Cost Study Approach



- The cost determinates or “coefficients” from this analysis were combined into a cost model.

	Cost Determinates	Definition
1	Size	Number of Units in a building.
2	Age of Property	Property age is measured from 0 to over 30 years old.
3	Unit Size	Number of bedrooms.
4	Building Type	Walkout/Garden, Semi-detached/Detached, Row/Townhouse, or High-rise.
5	Occupancy	Family or Senior Property.
6	Location	Rural, Non-city Metropolitan, or City-Central Metropolitan.
7	Neighborhood Poverty Rate	Poverty Rate is based on 1990 U.S. Census Population and Housing data. Properties in a poverty area of over 40% have a 6% increase in costs.
8	Percent Assisted	Number of units that receive Section 8 assistance.
9	Ownership Type	Non-profit, For-profit, or Limited Dividend.
10	Geographic Area	Different areas within each state have their own geographic coefficient. There are 377 geographic coefficients, however some areas do not have coefficients.

Harvard Cost Study Approach

- By applying the cost determinate factors to a base, PUM cost of \$178 a project level AEL is computed.
- Verification of the Cost Model by Field Testing
 - By comparing the model-produced estimates of costs with various privately-managed public housing authorities, and;
 - By examining the budget-based estimates provided by independent appraisers (i.e. property management experts) for certain properties.
- Based on the results of the field testing, Harvard made adjustments to the model to account for extreme AEL values.
 - Established a national floor of \$200 for elderly properties and \$215 for family properties
 - Established a national ceiling of \$420 for all properties, except for New York, which has a ceiling of \$480.

Harvard Cost Study Results



Category	Units	-20%	-20 to -10%	-10% to 0%	0% to 10%	10% to 20%	>20%	Total
6	>6,599	1	1	4	2	1	3	12
5	1,250 to 6,599	6	6	21	30	16	48	127
4	500 to 1,249	4	7	40	38	38	117	244
3	250 to 499	6	14	29	60	93	229	431
2	100 to 249	16	48	164	183	209	207	827
1	<99	12	109	281	393	412	258	1,465
Total		45	185	539	706	769	862	3106
Share of PHAs		1.45%	5.96%	17.35%	22.73%	24.76%	27.75%	100%

- 45 PHAs had a 20% or greater reduction in AEL. (-\$80 million).
- 862 PHAs had a 20% or greater increase in AEL. (+427 million).
- Harvard Model results in a net increase of +6% (\$217 million) vs. current AEL.



Harvard Cost Study Caveats

Utility Expenditures are not adequately addressed. Data needed to successfully re-benchmark the cost of utilities does not exist.

Insufficient sample size. Model is not as accurate for PHAs where no sufficient sample of FHA properties exist (e.g. Puerto Rico).

No adjustment for modernization spending. Model does not account for modernization upgrades to a property, thus the costs may be overstated.

May reward inefficiencies. Harvard proposed a 10% “non-profit coefficient based on the non-profit features of a PHA, this may appear to reward inefficiency in public management.

Does not address Mutual Help or Turnkey projects. The study did not address the cost to operate these projects, as these are virtually nonexistent in the PHA environment.

Revised AEL is still not “de-bundled”. Because most PHAs do not collect project level data, the model cannot accurately determine line-item expenses.

Benefits of the Harvard Cost Study



Independent and Unbiased Cost Study.

AELs are updated and uniform across the PHA universe with little to no subjectivity.

Direction on re-benchmarking of utility costs.

Recommendations on certain policy issues.

Provides guidance for HUD management to implement reforms to project-based accounting and project-based management.

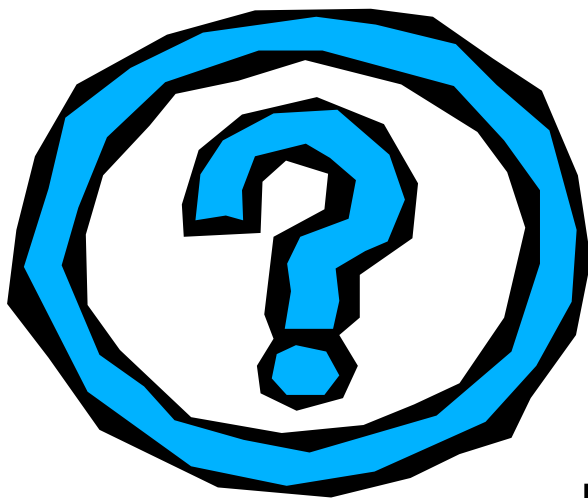
Next Steps



HUD will consider implementation of the new AELs.

Establish requirements for project-based accounting.

Explore efforts to move from “agency-centric” to “property-based” management model.



Questions or Comments

Please contact Chris Kubacki

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For additional information regarding the Harvard Cost Study, please visit the following website:

http://www.gsd.harvard.edu/research/research_centers/phocs/documents.html