Issue Brief

Economic Cost Analysis of Different Forms of Assisted Housing

Summary: This paper is an update of a 1995 PD&R study of average public housing and Section 8 voucher program costs. Using actual cost data for 1998, we estimate the cost of assisting the same mix of incomes and family sizes found in public housing with voucher subsidies. We conclude that total average ongoing public housing costs per occupied unit are 8 to 19 percent higher than voucher subsidy costs. There is, however, significant variability in cost relationships within and among PHA size groups. About one-fourth of the public housing in the sample cost less than 85 percent of vouchers, and a roughly equal percentage cost over 115 percent. On average, public housing operated by large PHAs (Public Housing Authorities) tends to be more expensive than vouchers, while public housing operated by small PHAs tends to be less expensive. Our comparisons are based solely on costs and do not address other policy considerations (e.g., the potential deconcentration benefits of vouchers or the permanency, stability, and ease of providing elderly services offered by public housing developments). The comparison also excludes public housing debt service costs.

Information on the relative costs of the public housing and Section 8 voucher programs is valuable in evaluating assisted housing policy choices. This paper compares the cost of these programs using 1998 PHA (Public Housing Authority) program data. The costs of public housing operating subsidies, modernization, and drug elimination grants are compared with voucher subsidy and administrative costs. To standardize the comparisons, it is assumed that the same types and sizes of public housing households with the same tenant contributions would be assisted in the voucher program. This analysis differs from past comparisons in that a larger quantity of PHA-specific public housing and voucher cost data are available for comparison.

There are three major data comparability issues involved in comparing public housing and Section 8 costs:

- Should costs be compared on a per unit or on a per occupied unit basis?

- Should HOPE VI costs be treated as on-going public housing program costs? (HOPE VI may be considered to be an alternative to normal modernization.)

- Should forgiven public housing debt service costs be considered in comparisons with voucher program costs? (On the one hand, public housing debt service costs have been forgiven and are sunk costs; on the other hand, debt service for construction and renovation of private-market rental units cannot be excluded from the voucher side of the ledger and affect the cost of vouchers.[1])

Similar studies were performed in 1981, 1982, 1994, and 1995. The 1981 and 1982 studies showed that Section 8 certificates (the forerunners to vouchers) cost slightly less than public housing if debt service costs were included, but cost significantly more than public housing if public housing debt service costs were excluded.[2] A 1994 Abt study showed that public housing cost 26 percent more than certificates if public housing debt service costs were included.[3] A 1995 HUD study showed that public housing costs per occupied unit, excluding debt service costs, were about 9 percent higher than certificate subsidy costs for the same families.[4] The current analysis, which is based on FY 1998 costs and appropriations, reflects further relative increases in public housing costs, at least for developments administered by large public housing agencies.

The information in Tables 1 and 2 provides cost comparisons for the public housing and Section 8 housing voucher programs using 1998 data, which are the most current complete data. The first two columns of Table 1 show national average public housing costs per unit and per occupied unit, respectively. The third column reports the corresponding costs for Section 8 vouchers. The average national public housing subsidy cost per unit per month was $401 in FY 1998 if costs are spread across all units; the cost per occupied unit was $451 per month. Nationwide, the average voucher cost per unit was about $456 per month. For several reasons, however, these are not comparable figures. First, a much

[1] Average private market mortgage cost, including units with no debt costs, were about $200 a month in 1995. This figure comes from U.S. Census Bureau, Property Owners and Managers Survey, 1996, Table 95; mortgage payment averages were adjusted using data files from this survey.

[2] Abt Associates, Participation and Benefits in the Urban Section 8 Program, 1981; Urban Systems Research and Engineering, The Cost of HUD Multifamily Housing Programs, 1982; HUD, Alternative Operating Subsidy Systems for the Public Housing Program, May 1982.

[3] Abt Associates, Revised Methods of Providing Federal Funds For Public Housing Agencies: Final Report, June 1994.

[4] U.S. Department of Housing & Urban Development, "Issue Brief: Will It Cost More to Replace Public Housing with Certificates?", March 1995.

greater share of vouchers than public housing units is located in the relatively expensive West Coast markets. Second, the populations and unit size requirements of the two populations are not the same from locality to locality.

To develop comparable cost figures, we constructed a sample of 1,505 PHAs for which data for both programs are available. The sample covers 83 percent of the public housing inventory and includes detailed cost, unit bedroom distribution, and family income data for both programs.[5] All PHAs with 1,000 or more public housing units are in the sample, and most PHAs with 250 or more units are also included. This means that the results of this cost comparison are valid for all large PHAs and most medium-size PHAs; many small PHAs, however, are excluded from the sample because they do not administer Section 8 voucher programs.

Cost comparisons for the sample are reported in the last three columns of Table 1. As can be seen in column four, public housing subsidy costs per unit for the sample averaged $462 if vacancies were included and increased to $519 if calculated on a per-occupied unit cost. The cost of voucher subsidies for families with the same tenant contributions and bedroom requirements at these PHAs averaged $438, significantly lower than the comparable cost for public housing units.

Over the past two decades, public housing vacancy rates have been in the 8-11 percent range. Subsidy outlays for vacant Section 8 voucher and certificate units, in contrast, amount to well under one-half a percent of program subsidies. Given the large variation in vacancy rates among public housing agencies and between the public housing and voucher programs, cost per occupied unit is a more valid measure of comparative housing assistance costs than one that includes vacancies.

Table 2 provides the cost of public housing subsidies as a percentage of Section 8 voucher subsidy costs for the sample selected for this study. It is based on PHA-by-PHA cost comparisons.[6] Table 2 shows that if Hope VI public housing renovation costs are excluded, public housing subsidy costs per occupied unit average 7.8% more than vouchers for the PHAs in the sample. If HOPE VI costs are included as program costs, however, public housing subsidy costs per occupied unit average 18.6 percent more than Section 8 voucher costs. Spreading the costs of public housing among all units, including vacant units, lowers the average per-unit cost of public housing, but it remains 5.5 percent

[5] Some simplifying assumptions were used in adjusting tenant-paid utilities and in applying vacancy rates, but the adjustments were forced to correspond with program-wide outlays at the national level to minimize bias.

[6] The average national public housing figures include special set-asides for training and special competition programs, but it was not feasible to accurately allocate these costs to the PHA level. PHA level data and estimates do not include the cost of most set-asides, and therefore modestly understate public housing program costs.

higher than voucher costs for the sample. The only type of comparison under which average public housing costs are less than vouchers for the sample is when HOPE VI funding is excluded from consideration and public housing vacancies are included in the calculation of program costs. As noted previously, none of these comparisons includes past public housing construction and renovation costs.

The following points are worth noting in reviewing the cost comparisons provided in Tables 1 and 2:

- If debt service and Hope VI (an alternative to normal modernization) program costs are ignored, public housing subsidies per occupied unit are about 8 percent higher than voucher subsidies for PHAs in the sample.[7]

- Public housing subsidies per occupied unit in the sample, including HOPE VI and ignoring debt service costs, are about 18 percent higher than voucher subsidies.

- If public housing costs are spread across all units, including vacant units, public housing costs an average of 5 percent more than vouchers in the sample when Hope VI program costs are considered.

- Average program-wide comparative cost figures conceal large PHA-to-PHA variations -- about one-fourth of all public housing in the sample cost less than 85 percent of vouchers and a roughly equal percentage cost over 115 percent.

- Small PHAs excluded from the sample because of incomplete data (about 17 percent of the total inventory) receive, on average, relatively modest amounts of operating subsidies and modernization funding and it appears that costs for the majority of these units are less than voucher costs.

Five caveats should be noted in interpreting the numbers in these tables. The first is that public housing costs are a function of appropriations, since what is appropriated is what is spent. Operating subsidies are determined by formula, increase with inflation and because of special add-ons, and have usually been fully funded. The combined amount of modernization and HOPE VI funding has been relatively stable but growing over the past 20 years, with funding increasing from $500 million in 1980 to $3.44 billion in 2000. Drug elimination grant funding has also been fairly stable in recent years, and is also discretionary.[8] To the extent that current public housing funding is excessive or inadequate relative to long-term program needs, adjustments in the cost comparison would be needed.

[7] If average private market debt cost of $200 is added to public housing cost, public housing subsidies would be 53% higher.

[8] Nearly all funding goes to the larger PHAs. FY 1999 rather than FY 1998 funding levels were used for this analysis, because formula funding was started in FY 1999 that will be continued in future years.

The second caveat is that the use of averages disguises large variations in public housing and voucher cost ratios from PHA to PHA, as well as variations from project to project. Public housing operated by large PHAs tends to be relatively more expensive than that operated by medium-sized and small PHAs, but there are large variations even within the large PHA category. Although we did not specifically research this question for this paper, there may also be a geographical variation; since large PHAs tend to be located in central cities, it is likely that public housing tends to be more expensive than vouchers in central cities and less expensive in rural areas. Past research also has shown that there are substantial cost differences among projects within the larger PHAs, both in terms of funding needs and actual expenditure patterns.

The third caveat is that there may be some desirable voucher program improvements that would modestly raise the per-unit cost of vouchers. For example, to help ensure that a greater proportion of families issued vouchers succeed in finding housing, it may be advisable to provide funds to counsel and assist those searching for units, or at least assist those having difficulties. Program modifications to increase landlord participation also may be desirable (e.g., increasing damage allowances, allowing up to two months rent for units where tenant moves out prior to the end of the lease, etc.).

The fourth caveat is that FMR (Fair Marker Rent) standards can and have changed over time, which affects program cost comparisons. Even if the FMRs were raised from the 40th to the 50th percentile of recent movers for the whole Section 8 program, however, we estimate that the average occupied unit cost for public housing (excluding debt service) would be higher than the per-unit cost of vouchers.[9]

Last and not least, relative program costs provide an incomplete basis for evaluating the merits of each program. Public housing offers tenants the advantage of an assured long-term affordable housing resource and development-based assistance lends itself to provision of health and social services. Elderly public housing developments, for instance, often provide support services essential to the frail elderly. Vouchers offer assisted households more choices and lend themselves to deconcentration objectives, and are preferred by many program applicants. In tight housing markets, however, voucher recipients may find it difficult to find or retain units and program success rates will always be partly a function of housing market conditions.

[9] As of December 2000, FMRs for 39 metropolitan areas were increased to the 50th percentile rent in order to promote mobility and deconcentration objectives.

Table 1
Comparison of FY 1998 Public Housing and Section 8 Voucher Costs

	National Totals***			Sample of 1,505 PHA's		
	Public Hous.-- Cost Per Unit	Public Hous.-- Cost Per Occupied Unit	Sec. 8 Vouchers -- Cost Per Occupied Unit	Public Hous.-- Cost Per Unit	Public Hous.-- Cost Per Occupied Unit	Sec. 8 Vouchers --- Cost Per Occupied Unit
Operating Subsidies	$187	$210	na	$214	$240	na
PH Drug Elimination Grants	$19	$21	na	$16	$18	na
Public Housing Capital Fund (Modernization)	$161	$181	na	$189	$213	na
HOPE VI Grants	$35	$40	na	$42	$47	na
Gross Tenant Rents*	$172	$193	na	$187	$193	$193
PH -- Other Revenue**	$9	$10	na	$9	$10	na
Sec. 8 Voucher Subsidies & Fees	na	na	$456	0	0	$438
TOTAL FUNDS AVAILABLE:	$582	$654	na	$658	$722	$641
HUD SUBSIDY COST:	$401	$451	$456	$462	$519	$438

*** The same gross tenant rents are used in calculating comparative public housing and voucher subsidies, since the objective is to measure the cost of serving the same families in the two programs.**

**** In the public housing program, additional revenues from investments and from non-dwelling rentals are used to pay for eligible operating expenses.**

***** Programs have significant locational concentration differences, making direct national cost comparisons invalid.**

Table 2

Public Housing Cost as a Percentage of Section 8 Voucher Costs

(100% = no difference)

	Including Hope VI	Excluding Hope VI
Avg.Public Housing Costs/Unit as % of Voucher Costs, including all vacancies	105.5%	95.9%
Avg.Public Housing Costs/Unit as % of Voucher Costs, excluding vacancies	118.6%	107.8%