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UNITED STATES HOUSING AUTHORITY

Purposes, Powers and Functions of USHA



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DEPARTMENT OF THE INTERIOR  
~~UNITED STATES HOUSING AUTHORITY~~  
Division of Research and Information  
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PURPOSES, POWERS AND FUNCTIONS OF USHA

Reviewing the state of the nation in his second inaugural address, President Roosevelt said, "I see one-third of a nation ill-housed, ill-clad, ill-nourished."

Congress responded to the first count in this indictment of living conditions by passing the United States Housing Act of 1937 which set up the United States Housing Authority as a "body corporate of perpetual duration." The purpose of this Act was expressed in its title to be "to provide financial assistance to the States and political subdivisions thereof for the elimination of unsafe and insanitary housing conditions, for the eradication of slums, for the provision of decent, safe, and sanitary dwellings for families of low income, and for the reduction of unemployment and the stimulation of business activity."

Under the Act all slum-clearance and low-rent housing programs must be initiated by the localities themselves. The United States Housing Authority simply acts as banker. It provides advice, technical assistance, and finally funds, after the requirements set forth in the law have been met by the applicants for a loan. The steps necessary to be taken by the cities to obtain a loan will be described in subsequent paragraphs.

It cannot be too strongly emphasized that under the United States Housing Authority the first move must be made by the cities where public spirit demands the eradication of slum areas. This is the opposite of the procedure under the Housing Division of the Public Works Administration. The Public Works Administration originated projects, let contracts, and supervised construction. Direction of the projects was centralized in Washington. The United States Housing Act calls for projects locally designated, locally constructed, and locally operated.

The United States Housing Authority, operating under the United States Housing Act of 1937, must not be confused with the Federal Housing Administration, operating under the National Housing Act, which has a wholly different function. Neither should the National Housing Act Amendments of 1938, which are intended to stimulate private building, be confused with the United States Housing Act Amendments of 1938.

## I. Need for Program and Social and Economic Cost of Slums.

That there is urgent need for such a program as that provided for by the Wagner-Steagall Act setting up the United States Housing Authority is abundantly demonstrated by investigations which have been made of conditions in many cities, and President Roosevelt's broad statement of the deplorable situation of millions of American families is shown to be no exaggeration.

A Survey of 64 American cities made by the Department of Commerce in 1934 disclosed that:

- 18.1 per cent of all dwellings either needed major repairs or were unfit for habitation.
- 16.7 per cent were more than 40 years old.
- 20.6 per cent rented for less than \$15.00 per month.
- 16.8 per cent were overcrowded.
- 8.1 per cent lacked gas or electricity.
- 5 per cent had no running water.
- 13.5 per cent had no private indoor water closet.
- 20.2 per cent had neither bath tub nor shower.

In the Department of Commerce Survey the effects of bad housing indicated by the foregoing figures were appraised in terms of health, crime, and municipal deficits.

In New York City deaths from tuberculosis were 220 per cent higher in the congested slum areas than in the city as a whole. Spinal meningitis deaths were 247 per cent greater and deaths from all causes 87 per cent higher.

In a slum area in Cleveland lived  $2\frac{1}{2}$  per cent of the city's population. Yet in this area 21 per cent of all murders were committed; 26 per cent of disorderly houses were located; 6.8 per cent of juvenile delinquency was centered.

In one slum area of Chicago 26 per cent of all boys between the ages of 10 and 16 passed through the juvenile court in one year.

Studies in Cleveland gave the cost to taxpayers of maintaining a certain slum area where 2.47 per cent of the population of the city dwelt on 0.73 per cent of the land area. The tax income from the area was \$225,035 while the total cost of maintaining it was \$1,972,437, or a net loss of \$1,747,402.

In Indianapolis it was found that 26 per cent of all the money spent in the city for public service (tax expenditure and charitable contributions) went to 10 per cent of the population, who were living in slums.

A survey by the City-County Health Department of Birmingham, Alabama, showed that in 1933, which was regarded as a typical year, the city spent in nine slum areas six times as much as it received in taxes from those areas. The nine areas

embraced  $302\frac{1}{2}$  city blocks and the report stated "the average loss to the city was \$1,770.10 for each of the  $302\frac{1}{2}$  blocks. If two small white areas were disregarded, the average loss per city block would be around \$2,500."

Although the Department of Commerce report was made over three years ago, more recent investigations bear out its general conclusions. For example, the Memphis, Tennessee, Housing Authority in a recent report pointed out that 25 per cent of the city taxes used for service went to slum areas from which came  $33\frac{1}{2}$  per cent of the demand for free hospitalization, 50 per cent of the demand for public relief and  $33\frac{1}{3}$  per cent of the city's delinquency. It was asserted in the report that because of conditions in the slum areas tax collection was virtually impossible.

Records of the Louisville, Kentucky, Housing Commission show that in a "typical year", the date not given, the East End slum area, which was occupied by 824 families, cost the city \$60,129 for hospitalization, crimes, delinquency, relief, and public nursing, and that, although only \$18,000 was levied in taxes on the area, not all of it was collected. Thus there was a deficit of at least \$42,000 in providing social services for this small area.

A report of the Mayor's Housing Committee of Hartford, Connecticut, showed that the slum areas, which occupy one-tenth of the area of the city, house one-fourth of the population. From these slum areas come 51 per cent of all tuberculosis cases; 57 per cent of all juvenile delinquency; 68 per cent of all relief cases; 38 per cent of all commitments for mental diseases;  $62\frac{5}{10}$  per cent of all arrests for adult delinquency; 56 per cent of all arrests for drunkenness and breach of peace;  $72\frac{5}{10}$  per cent of all arrests for burglary and theft. In the time covered by the report, the city spent 6 per cent of its entire budget to maintain one district comprising 1 per cent of its area. In this district the city spent \$465,900 and collected \$104,200 in taxes, a deficit which represented \$2.28 for every man, woman and child in the remainder of the city.

While it is generally true that very little residential property "pays its way", the cost to cities of maintaining slums is very much higher than the cost of keeping up the better areas.

Not only is a vast amount of new housing needed to reclaim the slums, but it is also required to make up a big existing deficiency of dwellings for families in the low income group and to meet the demand made by expected increase of population.

## II. Housing Shortage.

The report of the Senate Committee on Education and Labor submitted in connection with the Wagner-Steagall Housing Bill contained an estimate of additional dwellings required to meet both immediate needs and the normal needs for the future. The estimate was made by Catherine Bauer, Executive Secretary, Labor Housing Conference, and Coleman Woodbury, Director, National Association of Housing Officials.

This estimate gave the quantitative dwelling shortage in 1937 as 2,397,000, and the qualitative shortage, that is, the number of dwellings needed if those unfit for human habitation should be destroyed, as 3,266,000. Thus the total number of dwellings needed immediately to replace the worst slums and to establish standards of family occupancy as of 1930 was placed at 5,663,000.

In addition, normal needs between 1937 and 1950, taking into account increase of families, replacements and obsolescence were estimated at 6,389,000 in the quantitative category and 4,245,000 in the qualitative category. Hence, according to the estimate, the total additional dwellings needed between now and 1950 to meet minimum physical standards and maintain family occupancy standards as of 1930 will be 16,297,000.

Despite the existing and indicated shortages of dwellings, the construction since 1930 of dwellings renting at \$30 or under per month has been only a fraction of enough to meet the needs, and construction of dwellings renting for \$20 or less has been almost negligible.

### III. The United States Housing Act, as Amended.

The \$800,000,000 made available by the United States Housing Act of 1937, as amended, is for the purpose of remedying, by loans to public housing agencies, just such conditions as those described. Federally guaranteed bonds of the Authority will be issued to provide the funds for loans.

Stated in general terms, where annual contributions are to be made, the United States Housing Authority will lend public housing agencies up to 90 per cent of the cost of a low-rent housing project and the local agency must provide the remainder. Where capital grants are made, the loan may not exceed a project's development cost less such capital grants, but in no event may such loan exceed 90 per cent of a project's cost. The specific requirements and procedure may be described as follows:

Agencies Eligible for Aid. Only public housing agencies are eligible to borrow money and receive a subsidy from the Federal Authority. No aid under the Act may be given to individuals or private corporations. A "public housing agency" under the Act includes local housing authorities, municipalities, counties and states which are authorized to undertake and finance housing projects under proper enabling state legislation. It is generally expected that the public instrumentality which will participate most in the national public housing program will be the local housing authority, which is a public corporation, without taxing power, created, or authorized to be created, under state law for the sole purpose of undertaking low-rent housing and slum-clearance projects.

Local Participation in Development Cost of Project. Where annual contributions are made for a low-rent housing project, the local housing authority may borrow up to 90 per cent of the cost of developing the project from the Federal Authority; consequently it must obtain the balance from other sources. This portion of the cost of the project may be obtained from the municipality in which the authority operates, either as a capital subsidy in the form

of cash, land, services, or in improvements as to which a special assessment would normally be made. It may also be obtained as a loan through the sale of bonds of the local housing authority. The loans thus far approved by the Federal Authority bear interest at 3 per cent (the then going Federal interest rate plus  $\frac{1}{2}$  of 1 per cent) and must be repaid within a period not to exceed 60 years. In many cases, the local loans bear the same rate of interest although a slightly higher interest rate is permissible where the bonds are sold at public sale and such an interest rate is not inconsistent with maintaining the low-rent character of the housing projects.

Forms of Federal Subsidy. Two alternative forms of subsidy may be made by the Authority: The annual contribution method and the capital grant method. Under the annual contribution form of subsidy, annual contributions may be made by the Authority over a period of years not to exceed sixty. These contributions are limited to the amounts and periods necessary to assure the low-rent character of the project, and may not exceed the going Federal interest rate plus 1 per cent of the cost of the project. Such annual contributions must first be applied towards interest or principal of any loan due to the Authority from a public housing agency. Contracts for total annual contributions may not exceed \$28,000,000 per year. It is expected that annual contributions will be the usual form of subsidy.

Payments under these annual contributions are pledged as security for any loans obtained by a public housing agency to assist the development of a project to which the contributions relate, but annual contributions must first be applied toward the payment of interest on or principal of bonds purchased by the Authority, even if such bonds are resold by the Authority.

However, the capital grant method, an alternative way of making subsidies to assure the low-rent character of housing projects, may be made when a public housing agency demonstrates that this method is better suited than the annual contribution method for achieving and maintaining low rentals. Capital grants may not exceed 25 per cent of the cost of the project, except that for the payment of labor used in the development of a project, a supplemental grant of 15 per cent of the development cost of a project may be made from funds for the relief of unemployment upon allocation of such funds by the President to the Authority. Contracts by the Authority for capital grants (not including supplemental grants) may not exceed \$10,000,000 for the first year and an additional 10,000,000 for each of the succeeding two years.

Local Subsidies to Supplement Federal Subsidy. To supplement the Federal annual contributions, an annual local contribution must be made in an amount equal to one-fifth of the annual Federal contribution. This is the minimum annual local contribution, however. The fact is that the local contribution must be sufficient, together with the annual Federal contribution, to provide housing at rentals which can be paid by families of low income now living under slum conditions. This form of local contribution may be in the form of cash or tax remissions and exemptions. The contribution represented by full tax exemption of a project would generally be more than sufficient to meet the requirement of a 20 per cent local contribution, but might be required to achieve low rentals.

To supplement the capital grant, the state or political subdivision must contribute at least 20 per cent of the development or acquisition cost of the project. This form of local subsidy may be in the form of cash, land, community services, tax remissions or tax exemptions.

Elimination of Unfit Dwellings. The Act requires the elimination, by demolition, condemnation and effective closing, or the compulsory repair or improvement, of an unsafe or insanitary dwelling unit in the locality for every new dwelling unit in a housing project. The elimination of slum dwellings may be deferred in localities where, in the discretion of the Administrator, an acute housing shortage exists, but, even then, the slum elimination must be accomplished as soon as this shortage is relieved.

Limitations on Construction Cost. To assure that housing projects will be constructed economically, the Act limits the cost of construction (excluding land, cost of demolition and nondwelling facilities) of any housing projects. In cities having a population of 500,000 or less, the average room cost cannot exceed \$1,000 and the average family dwelling unit cost cannot exceed \$4,000. In larger cities, the limits are \$1,250 per room and \$5,000 per family dwelling unit, where such higher cost is justified by reason of higher costs of labor and materials and other construction costs. The Act also requires inexpensive designs and materials, economy both in construction and operation, and average construction costs not exceeding the average cost of dwellings produced by private enterprise under similar conditions.

Low-rent Character of Project. The Act is designed to serve only those who are both ill-housed and have small incomes. The local public housing agency must demonstrate that there is a need for the project in the community and that the rents in the project will be low enough to meet the need. The Act prohibits the acceptance of a family as a tenant whose net income exceeds five times the rental of the quarters to be furnished or, in the case of families with three or more minor dependents, six times the rental.

A Specific Example Will Illustrate How Act Works. Assume that an application is filed with the United States Housing Authority for a housing project costing \$1,250,000 containing 1,000 rooms, and located in a city where surveys show that the families of low income who need the project can afford to pay only \$4 per room per month. Further assume that the public housing agency requests aid by way of a loan and annual contributions. The local agency would proceed to borrow 90 per cent of the cost of the project from the United States Housing Authority, and would obtain the remaining 10 per cent from local sources.

While the loan from the Federal Government, supplemented by 10 per cent in local funds, will make it possible to construct a housing project, it will not be possible to fix \$4 rents in the project without a subsidy. This subsidy would have to be enough to make up the difference between the economic or unsubsidized rent that would otherwise have to be charged in the project and the \$4 rental which the slum dwellers can afford. The economic rent in the project would be

based upon the total amortization charges and the total operating expenses of the project. Thus, to take an example where tax exemption is granted, if the annual charge for interest, depreciation and amortization is \$45,000, and the annual cost of maintenance and operation is \$40,000 the total annual fixed charges would amount to \$85,000. These fixed charges would require a total annual economic rental from the project of \$85,000.

However, the rentals on 1,000 rooms at \$4 per room per month would be only \$48,000 per year. When this amount is applied toward payment of the annual charges, a balance of \$37,000 per year remains, which must be made up in order to prevent an operating loss. This sum of \$37,000 would be the amount of the annual cash contribution needed to operate the project, and could be granted because the maximum annual contribution on a \$1,250,000 project at  $3\frac{1}{2}\%$  (if the going Federal rate of interest were  $2\frac{1}{2}\%$ ) would be \$43,750.

The local annual contribution must equal at least one-fifth of the annual Federal contribution. The local contribution would have to be sufficient, together with the Federal contribution, to provide housing at monthly rentals of \$4 per room. Tax exemption would undoubtedly be necessary to achieve this rental, for full taxes on the public housing project would generally increase this total monthly rental per room to almost \$8. Consequently, if a project is to be undertaken which will be of the low-rent character contemplated by the United States Housing Act and which will meet the local needs, the local contribution should take the form of full tax exemption. This form of contribution would be sufficient to meet the minimum requirement of a 20 per cent local contribution to supplement the Federal subsidy. Since the local contribution takes the form of tax exemption, the Federal annual contribution would be \$37,000 in this particular case, or less than 3 per cent of the cost of the project.

#### IV. Preliminary Steps and Procedure for Obtaining Federal Aid.

Certain preliminary steps must be taken by local authorities in order to secure the benefits which have just been outlined.

First of all, the local authority will need to obtain funds to cover its preliminary expenses, at least to the point where the United States Housing Authority can provide financial assistance, as described later on.

As an early step, the local Authority should establish at least a tentative plan for obtaining its share of the development cost, determine how it proposes to meet the equivalent demolition requirement of the Act, and consider arrangements for raising the local annual contributions, in connection with its projects. Preliminary arrangements should be made regarding tax exemption and any payments in lieu of taxes.

Data should be gathered on the need for low-rent housing; the selection of the income group to be served, the localities where they can conveniently live and the rents they can pay.



It is also desirable to formulate a long range local housing program, with the first projects constituting component parts of these longer programs.

With these steps taken, the local housing authority is in position to submit a preliminary statement to United States Housing Authority for earmarking of funds.

The procedure that follows is:

- (1) To make a comparative analysis of alternative sites and suitable types of buildings and the selection of the most promising project or projects.
- (2) To prepare preliminary sketches for site plan and buildings; estimates of construction costs, of operating costs and of necessary subsidies to meet the requirements of the income group to be served.
- (3) To outline a program for the "equivalent elimination" of sub-standard dwellings and for the rehousing of families which are displaced.
- (4) To submit a preliminary application to the United States Housing Authority showing compliance with local laws and ordinances and with the conditions of the Act.

In this advance work the United States Housing Authority will supply technical aid and advice.

At this point, if the application is approved, the United States Housing Authority will be in a position to make a loan contract. Under this contract, the United States Housing Authority will agree to lend funds up to 90% toward the cost of project, subject to the conditions which will appear in the contract. Annual contributions on the part of the United States Housing Authority cannot begin until the physical completion of the project.

Since, according to the Housing Act, the United States Housing Authority may make loans and give technical assistance only to public housing agencies, generally known as local housing authorities, it is necessary for a city which wishes to undertake a slum-clearance project under the Act to have such an agency. These agencies are set up through State Acts, often known as Housing Authorities Laws.

Only 33 states have so far passed such enabling acts. They are: Alabama, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Montana, Nebraska, New Jersey, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, West Virginia and Wisconsin.

All the remaining 15 states have no housing laws under which local housing authorities may be set up. Furthermore, in several of the 30 states which have enabling legislation, the laws are not entirely satisfactory in their present form. Additional legislation or amendments are necessary before their cities can receive loans from the United States Housing Authority.

Although the Act creating the United States Housing Authority was only approved September 1, 1937, the work of carrying out its provisions is already well under way. On June 1 funds had been tentatively earmarked for projects in 95 cities in 23 states to a total of \$357,874,000 and has already entered into loan contracts aggregating over \$111,000,000. Under the Act no one state can have more than 10 per cent of the total funds.

Earmarking does not imply approval of specific housing projects submitted by the local housing authorities. It merely indicates that these local authorities are set up to do business, and are preparing to meet conditions imposed by the Housing Act.

While the object of the United States Housing Authority is primarily slum clearance and decent homes for those in the low-income category, the expenditure of \$888,888,888, as outlined in the present program, will do much to relieve unemployment. Of this figure \$88,888,888 represents the 10 per cent contribution of the local housing authorities.

#### V. Employment Created

Two specific types of employment are created, the labor of actual construction, and labor in the fabrication of materials. It has been roughly estimated that this program will provide 270,000,000 man hours of labor at the site and indirectly 430,000,000 man hours of labor in the manufacture of necessary materials. Direct and indirect labor will, on the basis of this estimate, total 700,000,000 man hours.

#### VI. European Housing

In this housing movement, the United States has not been a leader. In Europe, and in England particularly, a great deal has been done to house workers. The English people long ago realized all the problems which we are just beginning to understand, and which make low-rent housing and slum clearance a national public responsibility.

Eighty-six years ago the British Government passed the first law to improve housing conditions for workers and it has been passing laws ever since. The Act of 1935 makes overcrowding of dwellings illegal and sets up the necessary steps to prevent it in the future. Recognizing that private business cannot do the job the British Government has authorized a continuation of the subsidies offered to local governments in previous acts. Sir Raymond Unwin, outstanding authority on



housing in England, says: "We have built altogether since the war more than 2,000,000 dwellings of all kinds. Of these the municipalities have built 800,000 for the lower paid class and private enterprise has been building 1,400,000 for the people in the middle income group. During the last year we built 216,000 houses in the one year; of those 44,000 were built by municipalities for the lower paid classes and private enterprise added its boon by building 172,000 houses during the last year to sell speculatively."

Governments in almost every other country in Europe have taken part in the work of housing their low income citizens. Since the war 3,000,000 new dwellings have been built in Germany. About 80 per cent, or 2,400,000 were built with some form of Government aid. Holland, Belgium, France, Norway, Sweden, Denmark, and Switzerland have built much low cost housing in recent years. Again, much of it has received some government aid, usually in the form of long-term, low-interest loans, accompanied by annual subsidies. In Russia a campaign for better housing has just begun. Italy, Czechoslovakia and Poland have also built some Government aided housing for low-income workers.

Government in this country did not enter the housing field until the World War when the Federal Government took on the emergency job of building dwellings for war workers. With the Armistice this work was stopped.

In the years between 1932 and 1937, the Federal Government attacked the housing problem on a number of fronts. Alleviation of the housing need was attempted by extending loans to small home owners through the Home Owners Loan Corporation; by insuring private loans through the Federal Housing Administration; and by actual construction of dwellings. In this last phase only two agencies were active, the Resettlement Administration (now Farm Security Administration) and the Housing Division of the Public Works Administration. None of these agencies is to be confused with the United States Housing Authority which was set up by the Wagner-Steagall Act only last September, and is the only permanent Federal agency in the public housing field.

The objective of the Housing Division of the Public Works Administration was to clear slums and construct decent homes for low-income families.

## VII. Federal Projects

First operations in the summer of 1933 were begun on a plan of making loans to limited dividend companies. Results were unsatisfactory, and after accepting only seven from more than five hundred applications, the Housing Division adopted the plan of buying land outright and constructing projects entirely on its own. As a result, construction was begun on 51 slum clearance and low-rent housing projects in the United States and insular possessions, at an ultimate cost of \$134,000,000. The plan called for the construction of 21,656 living units. Today construction is complete on 45 of the 51 projects and 44 are occupied. The 45 completed projects will provide homes for 18,267 families which, experience has shown, will mean shelter for an estimated number of 65,761 persons. All of these projects, except the two Puerto Rico projects, were transferred by executive order to the United States Housing Authority. Williamsburg Houses in Brooklyn and

Harlem River Houses in New York had previously been leased to the New York City Housing Authority.

The Wagner-Steagall Housing Act calls for the "orderly disposal" of all the Public Works Administration projects turned over to the United States Housing Authority, directing the Authority to "sell its Federal projects or divest itself of their management through leases as soon as practicable." Such sales or leases must be made to public housing agencies.

As set forth in the Act, it will be the policy of the Authority to dispose of all Public Works Administration projects either through sale or lease to local authorities just as soon as these latter indicate their ability to operate them satisfactorily. Leases have already been signed for the three projects in Chicago, one in Cambridge, Massachusetts, one in Lexington, Kentucky, and one in Omaha, Nebraska, while leasing agreements have been signed for two projects in Louisville, Kentucky, two in Memphis, Tennessee, and projects at Birmingham, Alabama, Toledo, Ohio, Philadelphia, Pennsylvania, and Boston, Massachusetts. Leasing of other projects will follow when local housing authorities are ready.

Although tenant rentals are handled by the local housing agencies, the amount of this rent is set by the Administrator of the United States Housing Authority, Nathan Straus, in accordance with the Act which establishes specifications governing rentals "at the amounts necessary to pay all management, operation, and maintenance costs, plus such additional amounts as the Authority shall determine are consistent with maintaining the low-rent character of such projects."

Mr. Straus has insisted that these rents be maintained at the lowest possible level consistent with the ability of eligible tenants to pay. Following is the monthly per room rental in a number of typical projects: Lockefield Garden Apartments, Indianapolis, Indiana, \$4.43; University Homes, Atlanta, Georgia, \$5.11; Smithfield Courts, Birmingham, Alabama, \$4.50; Meeting Street Manor - Cooper River Court, Charleston, South Carolina, \$4.98; Outwaite Homes, Cleveland, Ohio, \$4.78; New Towne Court, Cambridge, Massachusetts, \$4.64; average for all Chicago projects \$5.43. In addition to the actual rent, the charges for heat, hot water, gas and electricity for lighting, cooking and refrigeration average around \$2 per month a room.

Under the decentralized plan of the United States Housing Authority, the success of the program depends entirely upon the responsible initiative of those cities who recognize their housing problem and are able and willing to take concrete steps toward its solution. The National Government has made money available for the work under generous terms, and, through the Authority, is prepared to offer technical advice in slum clearance and the construction of new dwelling units. It remains only for the cities to meet the financial and legal requirements and then furnish the public spirit and energy required to raze their slums and erect decent homes.

(August, 1938)