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# REPORT TO THE CONGRESS

Mr. T. E. Sullivan  
Transportation  
Room 5033

## Observations On Housing Allowances And The Experimental Housing Allowance Program B-171630

Department of Housing and Urban Development

**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

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MARCH 28, 1974



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-171630

To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses our observations on housing allowances and the Experimental Housing Allowance Program being conducted by the Department of Housing and Urban Development.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Housing and Urban Development.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General  
of the United States

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ABBREVIATIONS

C*	Estimated fair market rent for an average existing standard house in an average neighborhood
EHAP	Experimental Housing Allowance Program
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

## D I G E S T

### WHY THE REVIEW WAS MADE

In 1972 the Department of Housing and Urban Development (HUD) began one of the largest social experiments ever undertaken in the United States--the Experimental Housing Allowance Program (EHAP). One of the key questions is whether it is feasible and desirable to provide low-income families with housing allowances to help them rent housing of their choice in existing standard units.

Although the program's design and coverage is subject to change, HUD estimates that, by 1979, the projected completion date, 12 areas and more than 18,000 families will have participated in EHAP at a cost of about \$169 million.

Because EHAP may possibly be used as the basis for a national housing allowance program, GAO reviewed EHAP and other housing allowance efforts. This report also contains GAO's observations on costs and some likely effects of a national program.

### FINDINGS AND CONCLUSIONS

As of January 4, 1974, HUD had paid \$1,430,277 to 5,173 participants.

A housing allowance is an income supplement given directly to families to enable them to shop for quality housing anywhere in the market.

Unlike current forms of housing assistance, such as public and leased housing, families receiving housing allowances do not have to restrict their choices to certain housing units in certain sections of a city.

On September 19, 1973, the President announced the results of a 6-month study of housing programs. The study concluded that certain programs should be terminated and replaced with a system of direct cash assistance (housing allowances) to low-income families.

Subsequently, the Secretary of HUD said the administration was requesting authority to broaden EHAP to develop the basic information needed to report to the Congress on an operational housing allowance program by late 1974 or early 1975.

EHAP will involve three phases--the supply phase, the demand phase, and the administrative agency phase. Each phase will be distinctly different in design, impact, focus, size, and intended purpose.

--The supply phase will be conducted in Green Bay, Wisconsin, and Saginaw, Michigan, to analyze the market effects of paying housing allowances to eligible families in two medium-sized metropolitan areas.

In each city about 4,750 families will receive housing allowances averaging about \$1,000 a year for 5 years. Enrollment at the two locations is scheduled to begin early in 1974. (See p. 11.)

--The demand phase will be conducted in Pittsburgh, Pennsylvania, and Phoenix, Arizona, to determine how families use housing allowances in terms of such matters as changes in housing expenditures and the quality and location of housing selected.

In each city about 1,160 families will receive housing allowances averaging about \$1,000 a year for up to 3 years. As of January 4, 1974, 444 families had enrolled in Pittsburgh and 313 families in Phoenix. (See p. 12.)

--The administrative agency phase will be conducted in eight locations--Springfield, Massachusetts; Tulsa, Oklahoma; Jacksonville, Florida; San Bernardino County, California; Salem, Oregon; Peoria, Illinois; Durham, North Carolina; and the Morton, Burleigh, Stark, and Stutsman Counties in North Dakota.

This phase will test the relative effectiveness of the delivery system of various agencies such as welfare departments, housing authorities, and county metropolitan area governments. As of January 4, 1974, 4,416 families had enrolled at the 8 locations. Enrollees will receive an average of about \$1,000 a year for 2 years. (See p. 13.)

HUD estimates the EHAP program will cost about \$169 million. This estimate does not include the post-program assistance to participants

remaining at the end of the program. GAO estimates that, if postprogram assistance is considered, the total cost may be as high as \$247 million. (See p. 17.)

The housing allowance concept is not new. GAO attempted to assess the likely impact of a housing allowance program on urban housing markets by considering results of other programs which appeared to be similar, such as experiments and demonstration projects; welfare shelter grants; the military basic allowance for quarters; rent supplements; and European housing allowance experiences. (See pp. 21 to 25.)

#### Improved housing quality

At four non-EHAP test sites--Kansas City, Missouri; Wilmington, Delaware; Boston; and Baltimore--the quality of housing occupied by allowance recipients generally improved after they enrolled in the test program. On the other hand, a high percentage of recipients in two well-established housing allowance programs (welfare shelter grants and the military basic allowance for quarters) still live in substandard housing.

Because EHAP participants must live in standard housing, and if necessary, must move to satisfy this requirement, EHAP should make improvements in the quality of participants' housing similar to those which resulted from the non-EHAP test programs. (See pp. 25 and 26.)

#### Impact of housing allowances

The impact of a national housing allowance program on the housing market is very uncertain. EHAP's supply phase is designed to provide information on the impact of such a program.

A GAO consultant prepared a short-run supply model which ranked the housing units at one of the EHAP sites according to rent and size. With all units occupied and with enough demand that vacated units would be immediately reoccupied, this model examined what would happen when a housing allowance was granted to 10 percent of the eligible renter population.

The results showed that some of the amounts paid as housing allowances would have resulted in higher rents rather than in improved housing quality. Although some families would have been able to convert their allowances into better housing, some would not, and these families would have occupied units of a lower quality than that usually obtained for the rent paid.

The consultant also concluded that many nonrecipients of a housing allowance might have had to pay higher rents without receiving commensurate increases in housing quality primarily due to tight housing market conditions created by the housing allowance program.

The results of the consultant's model are consistent with a September 1973 Urban Institute report on the preliminary results of its study of a model of 10-year changes in housing quality and household location in a metropolitan area which would occur if housing allowances were paid to 10 percent of the eligible households. This study, which was conducted for HUD, revealed that about one-third to one-half of the increase in recipients' expenditures for rent resulting from the payment of housing allowances would go to price increases rather than improved housing services. The study found, however, little price rise for the average household with

an income above the eligibility limit.

Also, local officials of two similar programs--welfare shelter grants and the military basic allowance for quarters--advised GAO that, with each rise in the payments, there was generally a rise in rents without increased quality of service. (See pp. 26 to 28.)

Estimated cost of a national housing allowance program

GAO estimated the cost of a national housing allowance program by extending and extrapolating from EHAP's design.

The direct cost of housing allowances will depend on the number of eligible households, their rate of participation, and the allowance amount for each participating household. (See p. 33.)

If EHAP eligibility criteria is applied nationwide to all eligible persons, 11.8 of the 16.6 million renter households having an annual income of \$10,000 or less could be covered. (See pp. 31 to 33.)

Assuming that 70 to 100 percent of the estimated 11.8 million eligible renter households would receive an allowance and that the average fair market rent would remain the same as that for the EHAP sites, GAO estimates that the annual payments on a national housing allowance program (using 1970 figures, which were the latest available) would range from \$7 billion to \$10 billion, depending on the rate of participation. The average monthly allowance would be about \$71. (See pp. 33 to 35.)

If the eligibility criteria were changed to include only households with incomes below \$5,000, the

eligible households would drop to 8.8 million but the average monthly allowance would rise to about \$83. Total annual allowance costs would then range from \$6.2 billion to \$8.8 billion, assuming 70- to 100-percent participation. (See p. 35.)

GAO's estimates do not include administrative costs. On the basis of previous housing allowance tests, GAO estimates that the administrative costs of a national housing allowance program would be about 15 percent, or from \$1 billion to \$1.5 billion annually. (See p. 35.)

#### Comparison of housing allowance cost

GAO estimated the cost of providing direct cash assistance through a housing allowance program to those families supported by HUD under its various production subsidy programs. By using HUD criteria for EHAP and certain assumptions regarding the distribution of income and family size, GAO compared this estimated cost with the cost of the three production subsidy programs--section 235 homeownership assistance, section 236 rental assistance, and public housing--and the section 23 leased housing program.

GAO's comparison showed that a housing allowance program would be more costly than the production subsidy programs but less costly than the section 23 leased housing program. (See pp. 36 to 39.)

It is important to recognize that the estimate developed does not in any way represent a precise estimate of the cost of a housing allowance program, but GAO believes it does provide a reasonable indicator of the comparative cost of housing

allowances. It is reasonable, however, only in terms of the criteria and assumptions used, and changes in any factor which makes up the allowance, such as income or rent levels, could result in substantial changes in the estimated total cost.

#### Need to expand EHAP

The 11 urban sites HUD selected for EHAP are not fully representative of housing markets where a large portion of the urban population lives in that they will not provide information on markets with either low-quality housing or low vacancy rates

The current EHAP program should provide much information needed by HUD and the Congress to evaluate housing allowances as a feasible alternative to present housing programs. However, to obtain the information necessary for an informed decision, GAO believes that EHAP should be expanded to include some test sites with low housing quality and some with low vacancy rates, and any decision on a national housing allowance program should be delayed at least until EHAP's demand phase is completed in 1977.

EHAP is a relatively costly experiment; any decision based on incomplete results would be premature and could adversely affect the benefits to be derived from a national housing allowance program. (See pp. 43 and 45.)

#### RECOMMENDATIONS

This report contains no recommendations to HUD. It does, however, have two matters for the Congress to consider. (See p. 6.)



AGENCY ACTIONS AND UNRESOLVED ISSUES

In commenting on this report (see app. I) HUD indicated that the results of the two analytical models discussed in the report were tentative and highly questionable and stated that much more knowledge about the inflationary effects of housing allowances is needed. GAO agrees that the results are tentative and that further knowledge is needed. For this reason, GAO believes that a national housing allowance program should not be proposed until EHAP's demand phase has been completed and the results known. GAO is not aware of any models which predict that rents will not rise to some extent when housing allowances are introduced into a housing market. (See p. 28.)

HUD pointed out that GAO's estimates of the coverage and cost of a national housing allowance program were for renters only; if homeowners were included, as was done by HUD, GAO's estimates would far exceed HUD's estimates. GAO agrees, but, since section 504 of the HUD Act of 1970 specifically authorized HUD to pay housing allowances to renters--not homeowners--GAO included only renters in its estimates. GAO was unable to comment on HUD's estimates, as those estimates were not made available. (See p. 39.)

HUD stated that the C\* measures for the demand and administrative agency phases were developed by HUD on a specific site basis. (The C\* measure is an estimated fair market rent for an average existing standard unit in an average neighborhood.) For the supply phase--a large-scale program in which it is most critical that the C\* measure relate to what would be feasible in a national program--the estimated fair market

rents have not yet been established. HUD therefore questioned GAO's use of the average of the C\* measures for the demand and administrative agency phases in developing an estimate of the cost of a national housing allowance program.

The concept of developing a fair market rent should be no different for the supply phase than it was for the two phases already established. To develop a C\* measure on other than a specific site basis could result in payment of a Federal subsidy which is not indicative of local market conditions; it also would not provide valid data on the reaction of the local housing markets.

GAO continues to believe that its use of the average C\* measure for those seven locations where the information is available is the best criteria available and does provide some indication of the estimated cost of a national housing allowance program.

With regard to GAO's view that a site with low housing quality and low vacancy rates be tested, HUD stated that the criteria it used in selecting EHAP sites were adequate to insure that valid generalizations about experimental findings by means of direct inferences and analytical extrapolation would be possible for most, if not all, sectors of the housing market. HUD stated also that expanding EHAP to include some test sites with low vacancy rates and low housing quality would involve a huge additional expense which could not be justified by experimental considerations.

While there may be a theoretical basis for generalizing about experimental findings by means of direct

inferences and analytical extrapolation, GAO does not believe the results can be validated with any degree of certainty. In any event, the data required to make the prediction will not be available until EHAP's demand phase is completed in 1977. (See pp. 45 and 46.)

If HUD must wait until 1977 to determine whether its prediction as to the effect of housing allowances in a market with low housing quality and low vacancy rates is valid, GAO believes it would be more reasonable to actually test such a market during the experiment. The cost of expansion need not be huge, as HUD contends, for it would directly depend on the design of the experiment to be conducted, the size of the test site, and the number of participants enrolled.

HUD stated that, in its view, the data that will be available from the demand and administrative agency phases and the results of the housing market modeling activities will permit decisions regarding the first phase of a national housing allowance program by late 1974 or early 1975. GAO believes, however, that much more needs to be known about the impact of housing allowances before any portion of a national program is proposed and that

information needed to make an informed decision will not be available at least until EHAP's demand phase is completed in 1977. (See p. 46.)

MATTERS FOR CONSIDERATION BY THE  
CONGRESS

EHAP is an experimental program authorized by the Congress to demonstrate the feasibility of providing low-income families with housing allowances to help them rent housing of their choice in existing standard housing units. Because the impact of a direct cash assistance program is unknown and because of the great cost involved, GAO recommends that the Congress, in considering future legislation authorizing a national housing allowance program, weigh the benefit that could be derived from waiting until EHAP is complete and more information is available on the likely impact of the program.

Because the sites selected for EHAP were near average or above in terms of both housing quality and vacancy rates, GAO recommends that the Congress require HUD to provide assurances that the results achieved are representative of what might occur at locations which have low housing quality and low vacancy rates and which are representative of many urban metropolitan areas.

## CHAPTER 1

### INTRODUCTION

In 1972 the Department of Housing and Urban Development (HUD) began implementing one of the largest social experiments ever undertaken in the United States. Section 504 of the Housing and Urban Development Act of 1970 (12 U.S.C. 1701z-3), provides that the Secretary undertake an experimental program to demonstrate the feasibility of providing low-income families with housing allowances to help them rent housing of their choice in existing standard housing units.

Although section 504 authorizes paying housing allowances to renters, HUD decided that it could include homeowners and have more flexibility if it conducted housing allowance tests under its broad research authority provided by section 501 (12 U.S.C. 1701z-1). The Secretary is authorized and directed under section 501 to undertake such research, study, testing, and demonstration programs relating to the Department's mission and programs as he determines necessary and appropriate. The Secretary, therefore, chose not to request a continuation of section 504 authority, which expired on June 30, 1973.

HUD's Office of Policy Development and Research has completed a preliminary design of, and partially implemented, the Experimental Housing Allowance Program (EHAP). Although EHAP's design and coverage is subject to change, HUD estimates that, by 1979--the projected completion date--12 areas and more than 18,000 families will have participated in EHAP. Most of the participants will be renters but HUD expects to include some homeowners. The design of the homeowner portion of EHAP, however, was incomplete as of October 1973.

EHAP comprises three phases--supply, demand, and administrative agency. As of January 4, 1974, HUD had initiated the demand and administrative agency phases and had paid \$1,430,277 to 5,173 participants. HUD plans to initiate the supply phase in early 1974.

A housing allowance is an income supplement given directly to families to enable them to shop for quality housing anywhere in the market. Unlike current forms of housing assistance, such as public and leased housing, families receiving housing allowances do not have to restrict their

choices to certain housing units in certain sections of the city.

According to section 504, the housing allowances are to be paid monthly, are not to exceed the difference between 25 percent of the family's income and the maximum fair market rental, and are conditional upon an agreement by the family that the allowance will be used solely for paying rent in existing standard housing. The definition of low-income families is the same as in section 2(2) of the United States Housing Act of 1937 (42 U.S.C. 1402(2)):

"\* \* \* families (including elderly and displaced families) who are in the lowest income group and who cannot afford to pay enough to cause private enterprise in their locality or metropolitan area to build an adequate supply of decent, safe, and sanitary dwellings for their use."

On September 19, 1973, the President announced the results of a 6-month study of housing programs. The study concluded that certain programs should be terminated and replaced with a system of direct cash assistance (housing allowances) to low-income families. Subsequently, the Secretary of HUD, in testimony before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing, and Urban Affairs, stated that the administration was requesting authority to broaden EHAP to develop the information needed to report to the Congress on an operational national housing allowance program by late 1974 or early in 1975. The Secretary indicated that the program would initially cover only the elderly.

Early in October 1973, at HUD's request, legislation was introduced in the Congress (S. 2507 and H.R. 10688) which would revise section 504 to specifically authorize including homeowners in EHAP. The proposed legislation would remove the present restriction that funds HUD provides to public housing agencies for the operation of public housing programs (42 U.S.C. 1410) be used for renters only. As of December 6, 1973, the congressional legislative committees were considering the legislation.

This report provides information on the status of EHAP and other housing allowance efforts. Because parts of EHAP may be used as a model for a national housing allowance

program, we used some of EHAP's criteria to make observations on the costs and likely effects of such a program.

EMERGENCE OF THE CONCEPT OF  
HOUSING ALLOWANCES

U.S. housing policies have emphasized indirect housing assistance. Interest subsidies, which have been used extensively, are designed to reduce the production cost of housing with the reduction being passed on to the consumer in the form of lower monthly rental or mortgage payments. Yet, over the years, substantial consideration has been given to direct housing assistance programs.

The hearings leading to the Housing Act of 1937 saw the first lobbying efforts in favor of a direct housing allowance. The U.S. Chamber of Commerce and the U.S. Building and Loan League advocated direct rent assistance in the form of rent certificates. The idea was not acceptable to the Congress at that time, although a military basic allowance for quarters<sup>1</sup> had been in effect since fiscal year 1923 and legislation which authorized welfare payments<sup>1</sup> had recently been enacted.

During the 1940s there was renewed interest in the rent certificate concept. In 1943, the National Association of Real Estate Boards published a statement saying:

"Public Assistance should be given directly to families that cannot pay economic rents. This assistance should be administered through local welfare boards in the form of rent certificates adjusted to the needs and requirements of the family \* \* \*."

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<sup>1</sup>The military basic allowance for quarters is paid to officers and enlisted personnel for at least part of the cost of offbase housing (37 U.S.C. 403). The Social Security Act (42 U.S.C. 301) provided for Federal financial participation with the States for making welfare payments to certain classes of needy individuals. Included in these payments are funds which may be used for shelter grants for housing.

One year after this statement, the Producers Council, a homebuilders organization, included a rent certificate plan in a series of suggestions for congressional discussion. The idea of the plan was to allow families a reasonably free choice as to where they lived; families were to be selected on the basis of the inadequacy of their present housing. Again, efforts to legislate such proposals failed.

The Housing and Urban Development Act of 1965 established the rent supplement (12 U.S.C. 1701s) and section 23 leased housing programs. Like EHAP, such programs emphasized subsidies for privately owned housing. But, unlike EHAP, the subsidies went to the suppliers of housing rather than the occupants, and families could benefit from the subsidy only if they lived in the subsidized units.

In 1967 the President appointed a Committee on Urban Housing to study existing housing programs. In its report entitled "A Decent Home," the Committee recommended that cash allowances be made to families according to their housing need. These allowances, based on family size and income, would be paid directly to the family as opposed to an owner or a builder. The Committee explained that the allowances would increase the recipients' mobility and the supply of standard housing. Owners of slum housing would upgrade their structures to qualify for having recipients live in them. The Committee further recommended that the housing allowance approach be tried promptly on an experimental basis.

In July 1970, legislation was introduced in the Senate to establish an experimental housing allowance program. This legislation was enacted as part of the HUD Act of 1970 which authorized HUD to pay housing allowances to low-income families on an experimental basis in selected areas of the country.

In 1971 HUD directed the Urban Institute, a private research firm, to undertake a comprehensive study of the economic and social implications of a housing allowance program. The work by the Urban Institute became the groundwork for EHAP. Also, HUD funds were used in 1970 for two small-scale experiments under the Model Cities Program in Kansas City, Missouri, and Wilmington, Delaware. Other small-scale housing allowance tests have been or are now being conducted in several cities throughout the country.

## CHAPTER 2

### EHAP

To initiate EHAP, HUD officials chose two sites for the supply phase, two for the demand, and eight for the administrative agency (See app. II.) Each phase will have some type of outreach (promotional) procedure, screening of applicants, counseling of enrollees, housing inspection, and contractor monitoring. But, overall, each phase will be distinctly different in design, impact, focus, size, and purpose.

After selecting the sites, HUD established a panel of housing experts, consisting of HUD personnel and local officials, to develop the average cost of standard homes and apartments at each site. Using the costs developed by the panel, HUD officials determined the final figures to be used at each site.

### SUPPLY PHASE

This phase will analyze the market effects of paying housing allowances to eligible families in two medium-sized metropolitan areas--Green Bay, Wisconsin, and Saginaw, Michigan.<sup>1</sup> In each city about 4,750 families will receive housing allowances averaging \$1,000 a year for 5 years. As of October 1973, enrollment at the two sites was scheduled to begin early in 1974. Both renters and homeowners will have to live in standard housing to participate in the experiment.

The Rand Corporation, under contract to HUD, is responsible for designing the supply phase and devising methods for measuring or estimating (1) housing supplier response to the demand created by the housing assistance, (2) migration patterns of recipients, and (3) attitudes of nonrecipient families and community groups toward housing assistance.

Rand intends to determine the impact on the market by monitoring the housing market at each site for 5 years after the program begins. Three types of monitoring are planned: sample surveys, administrative records, and informal observations.

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<sup>1</sup>In January 1974 HUD advised us that its selection of Saginaw was tentative and subject to change.

## DEMAND PHASE

This phase will be tested in Pittsburgh, Pennsylvania, and Phoenix, Arizona. About 1,160 families at each site will receive housing allowances averaging \$1,000 a year for up to 3 years. As of January 4, 1974, 444 families had enrolled at Pittsburgh and 313 families at Phoenix. Participation in the demand phase should end by about February 1977. HUD has chosen Abt Associates, Inc., to administer the program at the two sites.

The demand phase is limited to renters and is designed to examine

- eligible families' participation,
- changes in expenditures on housing,
- quality of housing secured,
- location of housing selected,
- families' satisfaction with their choices, and
- costs incurred by the Government.

Different forms of direct assistance will be tested and the ways participants use them will be measured and compared. Some recipients will participate under the housing gap formula for assistance and others under a percentage of rent formula.

### Housing gap formula

This formula provides for an income subsidy (to be used only for housing) whereby the Government makes up the difference between the cost of a standard home and a predetermined percentage of a family's income. Two types of payments are used--minimum standards and minimum rent.

An eligible family will receive minimum standards payments only if it rents a unit meeting minimum housing standards set by the responsible agency--Abt Associates.



A family will receive minimum rent payments only if it pays a rent close to the fair market value of an existing standard unit.

Percentage of rent formula

Under this formula, the Government shares the cost of the housing with the participating family by paying the family some fraction of its actual rent expenditure, up to a specified maximum amount. The allowance payment is calculated on the basis of rent data supplied by the family. HUD has established various percentages to be applied to test this formula.

ADMINISTRATIVE AGENCY PHASE

This phase will be tested at eight sites--Springfield, Massachusetts; Tulsa, Oklahoma; Jacksonville, Florida; San Bernardino County, California; Salem, Oregon; Peoria, Illinois; Durham, North Carolina; and Morton, Burleigh, Stark, and Stutsman Counties in North Dakota. Its purpose is to determine the appropriate administrative means for delivering direct housing assistance to families should a national housing allowance program be established.

Participation in this phase should end by March 1976. As of January 4, 1974, enrollment at the sites was as follows:

<u>Site</u>	<u>Families enrolled</u>
Durham	210
Jacksonville	279
Peoria	890
Springfield	691
North Dakota (four counties)	292
Salem	895
San Bernardino County	755
Tulsa	<u>404</u>
Total	<u>4,416</u>

HUD has entered into a contract with Abt Associates to evaluate the effectiveness of various types of agencies in providing housing allowances to participating families. Specific areas to be addressed are the (1) administrative costs of an allowance program, (2) scope of services required, i.e., counseling, equal opportunity, etc., and the methods of delivering such services, (3) equity of different administrative approaches, and (4) amount of control required to insure that allowances are used as intended.

HUD chose public housing authorities, welfare departments, and county and State organizations to administer the programs. The local or State agency serving as the administrative agency at each site will pay housing allowances, averaging \$1,000 a year, to participating families for 2 years. The allowance is intended to increase consumer discretion and responsibility by permitting the recipient to shop for standard housing wherever it may be available.

#### Consolidation of resources

The administrative agency phase involves three separate agencies--HUD, Abt Associates, and the local or State agencies--and the coordination of their resources. Each has separate responsibilities.

HUD chose the sites and the administrative agencies; established overall policy objectives, program requirements, research questions, and funding levels; and has provided or will provide funds for agency planning efforts, housing allowance subsidies, and agency operating expenses. Also, HUD negotiated final contracts with participating agencies, specified planning requirements, will approve program changes, and is responsible for coordination and overall policy direction.

Administrative agencies have full responsibility for planning and operating their programs. The agencies will select participants, make payments, deliver services, collect data, file reports, terminate participants, and conduct all other management services required for operating the programs.

Abt Associates will evaluate the programs operated by the various administrative agencies.

## PROCEDURES COMMON TO ALL PHASES

### Outreach and enrollment

As each site becomes operational, the responsible agency will use various outreach techniques--news media and strategically located offices--to inform people of the experiment. Application blanks will be provided to those showing interest. If a family living in subsidized or substandard housing is selected to participate, it must move into nonsubsidized standard housing before the allowance will be paid.

The enrollment process is designed to include a cross section of the eligible population except in the supply phase, when all eligible families will be allowed to enroll. Thus, if 30 percent of those people at a site who qualify for EHAP are elderly, the site's participants will reflect a 30-percent elderly population.

To allow enough time for processing applications, families will be enrolled over a 9- to 12-month period. They must sign a contract with the responsible agency in which the agency agrees to pay the recipient a certain amount each month for a specified period of time and, in return, the recipient agrees to live in standard housing, allow inspection of the unit, and provide certain information to the agency, including notice of intent to drop out of the program. The agency may increase or decrease a recipient's housing allowance if the recipient's income or rent increases or decreases. If recipients do not comply with the contract, their housing allowance payments may be stopped.

### Counseling

Counseling is intended to provide information, advice, training, and encouragement or aid to program applicants and enrollees to help them gain maximum benefit from the housing allowance program. Except for one or two required counseling sessions at enrollment, participants have the option of receiving or not receiving counseling.

The form and intensity of counseling will depend on the procedures at each site. At some sites a social worker approach will be taken whereby the recipients are assigned a counselor at enrollment. The assigned counselor will work with the families in solving social, housing, economic, or other problems during the program.

Counselors are not supposed to act as rental or real estate agents but are to simply point out ways to locate standard housing, possible areas where it is available, and other general information. In addition, counselors must advise participants of their rights and responsibilities as well as program benefits and requirements.

### Inspection

The inspection procedure includes developing housing standards and verifying that the standards are met. To establish standards the responsible agency can

- adopt a local housing code,
- develop its own minimum standards, or
- adopt a national standard.

Inspection procedures may vary at each site. At some sites nearly all the homes will be inspected by agency personnel while at other sites only about 10 percent will be inspected. Families which do not have their homes inspected will be required to sign forms certifying that their units meet the minimum standard established by the agency. To determine the adequacy of the certifications, these homes will be inspected on a sample basis.

Families selected for the program which live in standard units will not have to move. Any substandard unit occupied by an EHAP participant will have to be upgraded to standard before the family will receive the allowance.

### Allowance payments

Each participant will receive the housing allowance for a specified period--2 years for administrative agency phase participants, 3 years for demand phase participants,

and 5 years for supply phase participants. Not all families at a site will start at the same time but all will receive allowances for the same length of time unless they fail to comply with program requirements and are terminated from the program.

Allowances may be paid by check, deposit of funds into a checking account set up for participants, or rent certificate. Participants must receive the payment at least monthly; however, the agencies may pay more frequently if they wish. Participants who have made satisfactory housing arrangements and remain eligible can expect regular payments.

The participants may have to pay a deposit on their newly rented home. Upon request of the participant, the agency or its disbursement representative may advance enough money to the participant to pay the deposit. The amount of the advance will be repaid by withholding a portion of the participant's first 12 monthly allowance payments. HUD has not yet established a policy on deposits for home buyers.

#### Termination

The allowance payments will be phased out over a 9- to 12-month period until all participants have received payments for the designated period--2, 3, or 5 years. The rate of termination depends on the rate of enrollment. To the extent possible, HUD will reserve section 23 leased housing for participating families.

#### COST OF EHAP

HUD officials estimate that EHAP will cost about \$169 million. However, if postprogram assistance is considered, we estimate that the cost may be as high as \$247 million. HUD's cost estimate by fiscal year and source of funding is shown below.

<u>Source of funds</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976-80</u>	<u>Total</u>
	(000 omitted)					
Research & Technology	\$2,920	\$12,042	\$11,575	\$14,176	\$29,575	\$ 70,288
Section 23 (notes a and b)	-	9,283	23,783	14,500	41,000	88,566
Section 235 (notes a and c)	-	-	100	1,900	8,000	10,000
Total	<u>\$2,920</u>	<u>\$21,325</u>	<u>\$35,458</u>	<u>\$30,576</u>	<u>\$78,575</u>	<u>\$168,854</u>

<sup>a</sup>HUD has determined that, under the broad authority of section 501, it can use funds appropriated for other programs, such as sections 23 and 235, in conducting EHAP.

<sup>b</sup>Under the section 23 public housing leasing program, which was established by the HUD Act of 1965, HUD provides funds to local housing authorities to lease privately owned dwellings, in standard condition, for low-income families to rent.

<sup>c</sup>Section 235 of the National Housing Act, as amended (12 U.S.C. 1715z), authorizes HUD to assist low- and moderate-income families in becoming homeowners by providing mortgage insurance and subsidizing portions of the monthly payments due under the mortgages for principal, interest, taxes, insurance, and mortgage insurance premiums.

However, the above cost estimate does not include the postprogram assistance to remaining participants at the end of the program. There are three alternatives for any participant who may still require Government housing assistance: (1) HUD is to determine whether it can negotiate a lease with the owner of the unit and thus continue assistance under the section 23 leasing program, (2) if HUD cannot lease the unit, it shall offer the participant an equivalent unit already available under the section 23 program and (3) if HUD cannot offer an equivalent unit, it may continue housing allowance payments to the participant up to a maximum of 24 months in the demand phase and 36 months in the administrative agency phase. The guidelines for the supply phase are not yet finalized; however, HUD told us that current plans are to make available 60 months of additional assistance.

In the following table we have estimated the additional cost to the Government for postprogram assistance. We have confined our estimate to the time frame described under the third alternative and the average yearly family allowance of \$1,000. Some participants will probably drop out of the program or become ineligible. Therefore our estimate was calculated at varying participation rates.

BEST DOCUMENT AVAILABLE

Estimated Maximum Cost of EHAP At Various  
Rates of Postprogram Participation

	<u>Estimated recipients</u>	<u>Year X \$1,000</u>	<u>Levels of participation</u>		
			<u>100 percent</u>	<u>80 percent</u>	<u>60 percent</u>
			(000 omitted)		
Demand phase	2,300	\$2,000	\$ 4,600	\$ 3,680	\$ 2,760
Supply phase	9,500	5,000	47,500	38,000	28,500
Administrative agency phase	6,400	3,000	19,200	15,360	11,520
			71,300	57,040	42,780
Administrative costs (note a)			7,130	5,704	4,278
Total postprogram assistance			78,430	62,744	47,058
Add direct program costs			168,854	168,854	168,854
Total			\$247,284	\$231,598	\$215,912

<sup>a</sup>On the basis of the administrative costs for the low-rent public housing program and previous housing allowance tests, we estimate the postprogram administrative costs (all costs except allowance payments) to be 10 percent of the total postprogram assistance.

EHAP ISSUES

HUD has established 10 questions to be answered by the program.

- How much do families receiving housing allowances improve the quality of their housing?
- Does an allowance encourage families to take responsibility for operating their own housing?
- How equitable is a housing allowance?
- How do the locations chosen by families receiving allowances compare with existing residential patterns?
- How do allowances affect the market for assisted housing?
- What would be the inflationary effect of a housing allowance program?
- Would such a program improve the maintenance and stimulate the rehabilitation of existing dwellings? Would it also encourage new construction?

- What are the total allowance and administrative costs of a housing allowance program?
- What is the appropriate administrative means for delivering allowances to families?
- To what extent can the objectives of an allowance program be defeated through adverse actions by participants, landlords, market intermediaries, and administrators and how can these be minimized?



## CHAPTER 3

### AVAILABLE DATA ON HOUSING ALLOWANCES

To assess the likely impact of housing allowances on urban housing markets, we considered other programs which appeared to be somewhat similar. Accordingly, the observations in this chapter are based on

- our analysis of scattered evidence from eight experiments and demonstration projects,
- our review of welfare shelter grants, the military basic allowance for quarters, section 23 leased housing, and rent supplements,
- relevant European experience with housing allowance administration, and
- the preliminary results of studies of housing allowances in urban housing markets.

Each of the sources is described briefly in the following sections.

#### EXPERIMENTS AND DEMONSTRATION PROGRAMS

We reviewed eight experiments and demonstration projects involving the use of housing allowances in local housing markets. (See app. III.) One of these projects (in Boston) began as early as 1964. About 740 households had participated in these test projects and about \$1 million in allowances had been distributed as of 1973.

Our analyses are based on reports by the administering agencies; evaluation reports and summary statements by Federal agencies; and, in the case of Kansas City and Wilmington, visits to or interviews with officials of the administering agencies.

In general, housing allowances ranged from about \$24 a month to \$105. Many recipients found housing in the open market while others were assigned units, some in new condominiums and cooperative apartments. In the homeownership market such as in Wilmington, recipients purchased homes under the section 235 program.

## SIMILAR HOUSING ALLOWANCE EFFORTS

Four current Federal programs have some elements of EHAP. These programs--welfare shelter grants, the military basic allowance for quarters, rent supplements, and leased housing--have provided some evidence over the years about the likely impact of a housing allowance on the housing market. In 1972 almost 7.6 million households in the United States were receiving some form of housing allowance through such programs. The annual amounts payable in all these programs in fiscal year 1972 totaled \$5.3 billion.

### Welfare shelter grants

Among the most general and widely used housing allowances are those paid as part of the various categorical welfare grants. The funds provided for each of the four basic federally assisted programs--old age assistance, aid to the blind, aid to the disabled, and aid to families with dependent children--may be used for a shelter grant or housing allowance.

We estimated the average welfare shelter grant provided to recipients in each of the 50 States and the District of Columbia and found that they varied widely from State to State: in 1972, from a low of \$12 a month in Louisiana to \$106 in Hawaii. The national average was \$45. The estimated total cost of welfare shelter grants in fiscal year 1972 was \$3.3 billion.

### Military basic allowance for quarters

The military basic allowance for quarters was first authorized in 1922 and is probably the oldest form of direct housing assistance paid by the Federal Government. It is designed to pay at least part of the offbase housing cost of enlisted personnel and officers. Its administration involves at least four elements:

1. The automatic entitlement of officers and enlisted persons to the amounts available for their rank. However, the amount is not payable unless the military person and household live offbase. Households living on base do not receive the allowance but housing is provided at no cost.

2. A housing counseling service which is administered by the housing referral office and which includes assistance in obtaining housing and managing it.
3. A marketmaker service which involves complete lists of available units by size, rent, location, and other characteristics.
4. A complaint service for both tenants and landlords.

Recipients generally selected their housing in the open-rental or ownership market.

Housing referral officers on military bases in Jacksonville, San Bernardino County and Springfield informed us that they kept lists and had frequent contacts with landlords. Seldom, however, was housing inspected before military personnel occupied it. Both the welfare housing staff and the military base housing referral officers said they engaged in substantial counseling activities.

In fiscal year 1972 the minimum payment was \$60 a month and the maximum was \$256. The average allowance was \$128 a month. Total allowances in fiscal year 1972 totaled \$1.8 billion.

#### Rent supplements

The HUD Act of 1965 provided for rent supplements to lower income families who were either elderly, handicapped, displaced, victims of natural disasters, members of the Armed Forces, or occupants of substandard housing. In each rental complex, it was expected that there would be both families paying the full rent that the landlord required and those receiving a rent supplement which would enable them to pay this rent.

Tenants receiving rent supplements must pay 25 percent of their incomes in rent. The remaining "rental housing gap," the difference between 25 percent of the family income and the actual market rent, is made up by a rent supplement paid directly to the landlord. Eligible landlords generally operate nonprofit, limited dividend, or cooperative apartment houses and complexes.

By the nature of the rent supplement program, housing units occupied by recipients are located in apartment projects where some share of the total available units is reserved for rent supplement occupants. Tenants entering this program could in some cases be welfare recipients.

HUD reported that the fiscal year 1972 rent supplement obligations came to \$70 million and the average rent supplement was \$70 a month.

### Section 23 leased housing

The public housing leasing program, established by the HUD Act of 1965, is a relatively new method of providing low-rent housing. It enables local housing authorities to lease privately owned dwellings for low-rent use. Any type of existing housing in standard condition may be leased--e.g., single-family houses, row houses, detached or semi-detached dwellings, apartments in multifamily structures, and mobile homes.

Under the section 23 leasing program, HUD's annual contributions make up the difference between what the low-income tenants can afford to pay for rent and utilities (no greater than 25 percent of their income) and the full amount paid to the owner plus local housing authority administrative expenses. In 1972 annual contributions amounted to \$112.1 million and operating subsidies \$12.1 million.

### EUROPEAN HOUSING ALLOWANCES

We reviewed available reports on housing allowances in the United Kingdom, the German Federal Republic (West Germany), Sweden, Finland, Denmark, and the Netherlands.

In general, European housing allowances covered from 1 percent of the households in the Netherlands to more than 15 percent of those in Sweden. Coverage depended on such factors as renters' versus owners' households, the size of the locality, family size, and the age of the units.

The housing allowance system in the United Kingdom began in October 1972. HUD and the United Kingdom have several agreements to share research and administrative results and to allow monitoring by teams of visiting experts. HUD

housing quality primarily due to tight housing market conditions created by the housing allowance program.

The results of our consultant's model are consistent with a September 1973 Urban Institute report on the preliminary results of its study of a model of 10-year changes in housing quality and household location in a metropolitan area which would occur if housing allowances were paid to 10 percent of the eligible households. The results of this study, which was conducted for HUD, revealed that about one-third to one-half of the increase in recipients' expenditures for rent resulting from the payment of housing allowances would go to price increases rather than improved housing. The study found, however, little price rise for the average household with an income above the eligibility limit.

Also, we were advised by local officials of two housing allowance prototype programs--welfare grants and the military basic allowance for quarters--that, with each rise in the payments, there was generally a rise in rents without increased quality or service.

In Milwaukee, where the maximum allowance in 1972 was \$160 a month, an official of the County Welfare Department informed us that, with each rise in the maximum allowance mandated by Wisconsin, landlords tended to raise rents without necessarily improving the quality of the accommodations.

In Syracuse, a welfare official informed us that welfare shelter grants had increased three times in recent years. In each case the increase was followed immediately by increased rents, in many cases with no increase in housing quality. He stated also that the landlords increased the rents for all tenants in the units, and that therefore, the raise in shelter grants led to higher rents for many tenants, not just welfare recipients.

The housing referral officer at Norton Air Force Base, San Bernardino, informed us that many landlords increased the rents with each rise in the basic allowance for quarters. Yet, owners did not provide increased maintenance or attempt to raise the quality of the units.

Although factors such as increased maintenance costs, increased taxes, and refinancing of the property can increase

rents without improving housing quality, it appears that some of the amounts paid as housing allowances will do the same thing.

### Effects of locational choices on existing residential patterns

Will families receiving housing allowances follow the residential pattern of their ethnic groups? If they can afford quality housing in other neighborhoods, where will they move?

The Kansas City demonstration project clearly demonstrated that low-income families moved out of the areas in which they were living when selected to participate in the program. Most black families tended to move into higher income black neighborhoods and most white families moved only to white areas. Only about 8 percent of the black participants moved to primarily white areas.

In the Wilmington demonstration project, all families moved an average 11.3 blocks. Almost as a rule, Spanish-American families moved to or remained in Spanish-American neighborhoods, blacks stayed in predominately black neighborhoods, and whites in white neighborhoods. Not one black family attempted to integrate a white neighborhood.

One objective of the counseling by military housing referral offices is to alert personnel to the equal housing opportunity provisions of Federal law. In Jacksonville, San Bernardino, and Springfield, housing referral offices reported relative ease in placing military families anywhere in the area, regardless of race or size of family.

### AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report (see app. I), HUD stated that (1) a military basic allowance for quarters differs significantly from a housing allowance because the recipient is not required to spend the amount received on housing and (2) because the military allowance is simply an income supplement, only a small proportion of the payment would be used for housing and little improvement in housing condition would be observed. With respect to welfare payments, HUD stated that (1) the housing portion of a welfare payment may or may not have to be spent on housing, depending on the State or

local welfare system and (2) in few of these programs are those payments enough for recipients to occupy decent housing. HUD concluded that observations on the quality of housing obtained by participants in these programs are not directly relevant in predicting the effect that a national housing allowance program will have on inducing families to occupy standard housing.

Although we recognize these differences, we believe that these two programs can provide guidance in planning for a national housing allowance program. For example, although the average military basic allowance for quarters paid in 1972 was \$128 a month, many of the enlisted personnel and a significant number of officers at five military bases were living in substandard housing. Furthermore, as previously mentioned, the Department of Health, Education, and Welfare reported in January 1969 that at least one-half of all welfare recipients were living in deteriorating, dilapidated, unsafe, insanitary, or overcrowded housing.

By contrast, in the Kansas City, Wilmington, Boston, and Baltimore housing allowance projects, where counseling was provided, homes inspected, and the recipients required to spend the allowance on standard housing, the quality of housing occupied by allowance recipients generally improved. We believe, therefore, that a national housing allowance program established without strict control over the way the families spend the allowances would result in a significant number of families living in substandard housing--similar to the military and welfare experiences.

HUD indicated that the results of the two analytical models, which identify two possible adverse effects of a full-scale housing allowance program, are tentative and highly questionable and stated that much more knowledge about the inflationary effects of housing allowances is needed. According to HUD, EHAP's supply phase is designed to provide direct housing market experience on exactly these questions.

We agree with HUD that both models are tentative and that much more knowledge about the inflationary effects of housing allowances is needed. Our consultant prepared only a short-range supply model and it was his opinion that the rent eligible households have to pay would increase and that the rent ineligible households have to pay might also increase.

The Urban Institute model is a much larger effort and the Institute cautions against using the results as actual fact at this time. The results of both studies were included in the report as a matter of information. We are not aware of any models which predict that rents will not rise to some extent when housing allowances are introduced into a housing market.

We recognize that the supply phase should provide information on the inflationary effects of housing allowances. However, the experiment is to run for 5 years and is not expected to begin until early 1974. Therefore, it will be several years before any appreciable information can be developed on the inflationary effects of housing allowances.



## CHAPTER 4

### ESTIMATED COVERAGE AND COST

#### OF A NATIONAL HOUSING ALLOWANCE PROGRAM

Two of the most significant factors in considering the desirability of enacting a national housing allowance program are the coverage and cost of such a program. Although in the absence of an established program the coverage and cost cannot be precisely determined, it is possible to estimate the eligibility characteristics and coverage for renter households by extending and extrapolating from EHAP's design, assuming that the national program would use criteria and procedures similar to those applied to EHAP participants.<sup>1</sup> The cost of such a program can be estimated in this way also. It should be recognized, however, that the estimated coverage and cost could vary widely depending on the criteria used.

#### ESTIMATED COVERAGE

To estimate the number of families potentially eligible for housing allowances at EHAP sites, HUD developed a "C star" (C\*) measure, which is defined as an estimated annual fair market rent for an average existing standard house in an average neighborhood.<sup>2</sup> HUD assumed that any family paying less than C\* would be potentially eligible to participate in EHAP.

Calculating the potentially eligible families on the basis of C\* involves both physical and financial need criteria. A financial criterion uses the percentage of income paid for rent as an indicator of housing need. A physical criterion uses indicators of substandard housing. For example, those families potentially eligible on the basis of

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<sup>1</sup> Although single nonelderly individuals are excluded from participating in EHAP, we have included them in our estimates because we wanted to determine the maximum number of renter households eligible for participation in any national housing allowance program authorized by the Congress.

<sup>2</sup> "Average existing standard house" and "average neighborhood" have not been defined by HUD.

the C\* method could include families living in standard housing and paying less than C\* but with a rent-income ratio of more than 25 percent (financial need). Also, the calculation could include families paying less than C\* and having a rent-income ratio of less than 25 percent but living in sub-standard housing (physical need). One family could have a high rent-income ratio and the other could live in bad housing, but both would be eligible for EHAP.

In applying a financial criterion for "housing poor," HUD used the public housing continuing occupancy income limit as the upper boundary. The continuing occupancy limit in some of the highest living cost cities in the Nation in 1970 was \$10,000 annual income. Using HUD's average C\* measure, we estimate that in 1970 the number of renter households paying more than 25 percent of the median family income in rent, earning incomes of \$10,000 or less, and paying rents at or below the average C\* was about 11.8 million, as shown in the following table. (We used 1970 because the latest available census data was for 1970.)

**ESTIMATE OF RENTER HOUSEHOLDS ELIGIBLE  
FOR HOUSING ALLOWANCE  
BY INCOME AND SIZE OF RENTER HOUSEHOLD**

ANNUAL INCOME	NUMBER OF FAMILY MEMBERS PER HOUSEHOLD						TOTAL
	1	2	3-4	5-6	7-8	OVER 8	
\$ 0 TO 1,999	2,175,014	828,585	589,803	207,288	70,724	20,994	3,892,408
2,000 TO 2,999	759,522	553,958	372,288	130,168	46,852	13,908	1,876,696
3,000 TO 3,999	579,997	543,148	433,952	176,640	62,892	18,669	1,815,298
4,000 TO 4,999	-	524,035	463,173	185,838	67,062	19,907	1,260,015
5,000 TO 5,999	-	526,191	547,996	213,574	71,691	21,281	1,380,733
6,000 TO 6,999	-	-	573,391	219,234	70,676	20,979	884,280
7,000 TO 7,999 (a)	-	-	-	203,913	60,981	18,101	282,995
8,000 TO 8,999 (a)	-	-	-	203,913	60,981	18,101	282,995
9,000 TO 9,999 (a)	-	-	-	-	60,981	18,101	79,082
<b>TOTAL</b>	<b>3,514,533</b>	<b>2,975,917</b>	<b>2,980,603</b>	<b>1,540,568</b>	<b>572,840</b>	<b>170,041</b>	<b>11,754,502</b>

(a) CENSUS DATA DID NOT SEGREGATE THE \$7,000 TO \$9,999 INCOME CATEGORY BY NUMBER OF FAMILY MEMBERS PER HOUSEHOLD; THEREFORE, WE ASSUMED THAT THE TOTAL WAS EVENLY DIVIDED BETWEEN THE THREE GROUPS.

Therefore, of the 16.6 million renter households in the Nation having an annual income of \$10,000 or less, 11.8 million, or about 70 percent, would have been eligible in 1970 for housing allowances if the current EHAP eligibility criteria were extrapolated.

The number of potential participants in a national housing allowance program would vary substantially depending on the criteria used to determine eligibility. For example, excluding HUD's C\* measure and using only the financial criterion of \$10,000 annual income or less, a rent-income ratio of 25 percent or more, and 1970 U.S. Housing Census information, we estimated the number of housing poor to be 8.1 million renter households out of 16.6 million.

On the other hand the number of substandard housing units, defined as those without adequate plumbing or those with adequate plumbing but overcrowded conditions, would be substantially less than 8.1 million. Using 1970 census figures for renter households with annual incomes of \$10,000 or less living in such substandard housing, the number of substandard units comes to 3.3 million (1.74 million and 1.54 million, respectively).

The EHAP eligibility criteria define a universe of the housing poor significantly larger than that defined by other measures of poverty or housing need. This suggests that a substantial share of the eligible families could use their housing allowances to reduce their rent-income ratios rather than improve the quality of their dwellings.

#### ESTIMATED COST

The direct cost of a national housing allowance program will depend on the number of eligible households, their rate of participation, and the amount of the allowance for each participating household. To this direct cost will be added the administrative costs involved in determining eligibility, providing counseling, paying allowances, and other tasks, including inspecting and certifying units for occupancy.

Assuming that from 70 to 100 percent of the estimated 11.8 million eligible households would receive allowances and that the average fair market rents would remain the same as those for the EHAP sites, we estimate that the annual

payments on a national housing allowance program (using 1970 figures) would range from \$7 billion to \$10 billion, depending on the rate of participation. The average monthly allowance would be about \$71. This amount will rise as rents rise unless household incomes rise at the same rate.

Using HUD's criteria for eligibility in EHAP, we estimated the total monthly cost of a national housing allowance program by income and size of renter household, as shown in the following table.

**ESTIMATE OF MONTHLY HOUSING ALLOWANCE COST  
BY INCOME AND SIZE OF RENTER HOUSEHOLD**

ANNUAL INCOME	NUMBER OF FAMILY MEMBERS PER RENTER HOUSEHOLD						TOTAL
	1	2	3-4	5-6	7-8	OVER 8	
\$ 0 TO 1,999	\$178,786,151	\$87,001,425	\$78,561,760	\$34,617,096	\$14,279,176	\$4,776,135	\$398,021,743
2,000 TO 2,999	38,659,670	40,826,705	37,936,147	17,663,798	7,992,951	2,728,750	145,808,021
3,000 TO 3,999	17,457,910	28,732,529	35,193,507	20,295,936	9,421,222	3,274,543	114,375,647
4,000 TO 4,999	-	16,769,120	27,883,015	17,468,772	8,644,292	3,075,632	73,840,831
5,000 TO 5,999	-	5,893,339	21,591,042	15,633,617	7,749,797	2,845,270	53,713,065
6,000 TO 6,999	-	-	10,665,073	11,487,862	6,170,015	2,368,529	30,691,479
7,000 TO 7,999	-	-	-	6,423,260	4,049,138	1,665,292	12,137,690
8,000 TO 8,999	-	-	-	2,181,869	2,780,733	1,288,791	6,251,393
9,000 TO 9,999	-	-	-	-	1,512,328	912,290	2,424,618
<b>TOTAL</b>	<b>\$234,903,731</b>	<b>\$179,223,118</b>	<b>\$211,830,544</b>	<b>\$125,772,210</b>	<b>\$62,599,652</b>	<b>\$22,935,232</b>	<b>\$837,264,487</b>

NOTE: TOTAL ESTIMATED MONTHLY PAYMENT IS \$837,264,487 AND THE AVERAGE MONTHLY ALLOWANCE IS \$71.

We estimated the annual cost of a national housing allowance program at various participation rates, as follows.

Cost of a National Housing Allowance Program by Percent  
of Participation of Eligible Renter Households

<u>Percent of participation</u>	<u>Households</u> (millions)	<u>Average monthly allowance</u>	<u>Annual cost</u> (billions)
100	11.8	\$71	\$10
90	10.6	71	9
80	9.4	71	8
70	8.2	71	7

If the eligibility criteria were changed to include only households with incomes below \$5,000, the total eligibles would drop to 8.8 million but the average monthly allowance would rise to about \$83. Total annual allowance costs would then range from about \$6.2 billion to \$8.8 billion, assuming the 70- to 100-percent participation rate.

As the income level declines (in the above case from \$10,000 to \$5,000 annually) the average monthly allowance increases. For example, a five-member family earning \$1,000 annually would receive a much larger monthly housing allowance than a five-member family earning \$9,500 each year. Thus a housing allowance program limited largely to poor households with incomes below \$5,000 would not be significantly less costly than one using the higher level of eligibility.

Our estimates do not include administrative costs, which are likely to prove of some importance in congressional consideration of a national housing allowance program.

HUD estimated that the cost of administering EHAP is about 30 percent of the allowance payments. This estimate, however, includes costs for design, data gathering and evaluation, and contractor monitoring, which are peculiar to EHAP and which would not be applicable to a national housing allowance program. Excluding such costs, we estimate that the administrative costs of a national housing allowance program would be about 15 percent of the allowance payments. This adds \$1.5 billion annually to our higher estimates and at least a billion to our lower estimates.

## COMPARISON OF HOUSING ALLOWANCE COST

In October 1973 S.2507 and H.R. 10688 were introduced into the Congress (see p. 8); if enacted without change, they will declare that "the most promising way to enable all families to obtain decent housing at an acceptable cost appears to be direct cash assistance." We attempted to estimate the cost of providing direct cash assistance through a housing allowance program to those families supported by HUD under its various production subsidy programs. This was a difficult task because we are dealing with a nonexistent program for which criteria for eligibility has not been established.

Nevertheless, by using HUD criteria for EHAP and certain assumptions regarding the distribution of income and family size, we compared the estimated cost of a housing allowance program with the cost of three production subsidy programs and the section 23 leased housing program.

It is important to recognize that the estimate developed does not in any way represent a precise estimate of the cost of a housing allowance program. However, we believe it does provide a reasonable indicator of the comparative cost of housing allowances. It is reasonable, however, only in terms of the criteria and assumptions used, and changes in any factor which makes up the allowance, such as income or rent levels, could result in substantial changes in the estimated total cost.

The HUD section 235 homeownership assistance program, section 236 rental assistance housing program,<sup>1</sup> and the

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<sup>1</sup>Section 236 of the National Housing Act, as amended, authorized a program under which rental housing units would be provided to low- and moderate-income families. Under the program HUD can insure privately financed mortgage loans for multifamily housing projects and pay, on behalf of the mortgagors, the mortgage insurance premiums and the interest on the mortgage loans in excess of 1 percent. Because HUD makes these payments, a basic monthly rent for each housing unit is established at a rate lower than would apply if the project received no Federal assistance.

public housing program<sup>1</sup> (excluding leased housing) were used for our comparison. HUD's budget for fiscal year 1974 indicated that as of 1972, HUD was supporting 2 million units under these programs. On the basis of data obtained from various HUD sources, we estimated that the yearly subsidy per unit ranged from \$489 (section 235) to \$1,536 (public housing). When administrative costs were included, the amounts ranged from \$562 to \$1,644, as follows.

<u>Program</u>	<u>Subsidy per unit</u>	<u>Administrative cost per unit</u>	<u>Yearly cost per unit</u>	<u>Number of units</u>
Section 235	\$ 489	<sup>a</sup> \$ 73	\$ 562	465,230
Section 236	737	<sup>a</sup> 111	848	469,810
Public housing (note b)	1,536	<sup>c</sup> 108	1,644	<u>1,100,400</u>
Total				<u>2,035,440</u>

<sup>a</sup> A 1973 HUD housing study indicated that the section 235 and 236 program administrative costs (interest and property tax deductions; endorsement, maintenance, and settlement costs; and foreclosure costs) totaled 15 percent of the subsidy.

<sup>b</sup> Does not include section 23 leased housing.

<sup>c</sup> A 1973 HUD housing study indicated that the administrative cost for the public housing program was \$9 per unit each month, or \$108 each year.

To compare the yearly cost per unit under these three programs with our estimate of the yearly cost per unit under a national housing allowance program, we developed a weighted average for the three production subsidy programs. This average amounted to \$1,213 a unit, as shown in the following table.

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<sup>1</sup> The United States Housing Act of 1937, as amended, provides for a low-rent public housing program designed to make decent, safe, and sanitary dwellings available to low-income families at rents they can afford. Under the program HUD provides financial and technical assistance to local governments in developing low-rent public housing projects.

<u>Program</u>	<u>Ratio of units to total of the three programs</u>	<u>Yearly cost per unit</u>	<u>Weighted average</u>	
Section 235	$\frac{465,230}{2,035,440} = 22.86$	\$ 562	[0.2286x562]	\$ 128
Section 236	$\frac{469,810}{2,035,440} = 23.08$	848	[.2308x848]	196
Public housing	$\frac{1,100,400}{2,035,440} = 54.06$	1,644	[.5406x1,644]	<u>889</u>

Weighted average  
yearly cost  
per unit

\$1,213

The major impact of the sections 235 and 236 and public housing programs is upon those individuals who annually earn \$10,000 or less--the same income eligibility criteria as those used for EHAP. A high percentage of those individuals eligible for housing allowances would be in the lowest income groups. (See table on p. 32.) Because many of the public housing tenants are also in the lowest income groups, it is appropriate for the public housing cost to make up a high percentage of the weighted average cost for the three programs.

Using HUD's average C\* measure as an indicator of the cost of standard housing and applying EHAP criteria according to the size of families and their income levels, we estimated the cost to pay housing allowances to the 2 million families enrolled in the 3 production subsidy programs. We then compared the weighted average cost per unit of the three production subsidy programs with our estimate of the cost of providing housing allowances or section 23 leased housing to those 2 million families, as shown in the following table.



<u>Program</u>	Number of households (note a)  (millions)	Yearly cost to Government for each household	Period (note a)  (years)	Total cost  (billions)
Production programs (sections 235 and 236 and public housing)	2	\$1,213	5	\$12.1
Housing allowances	2	<sup>b</sup> 1,408	5	14.1
Section 23 leased housing	2	<sup>c</sup> 1,673	5	16.7

<sup>a</sup>To quantify our comparisons over time, we chose a payment period of 5 years. The number of households is the number of units supported in 1972 by the three production subsidy programs.

<sup>b</sup>Includes a subsidy of \$1,224 and administrative costs of \$184. On the basis of the administrative costs of HUD programs and previous housing allowance tests, we estimated that administrative costs for housing allowances would be about 15 percent of the yearly \$1,224 subsidy, or \$184.

<sup>c</sup>According to HUD, estimated contractual payments for leased housing are about \$1,565 per unit per year (including operating subsidy). A HUD housing study shows that the administrative cost for the public housing program (including leased housing) was \$9 per unit per month in 1972, or \$108 per year (\$1,565 + \$108 = \$1,673).

The major difficulty with these comparisons is that we are comparing existing programs with a nonexistent program. The cost differences between the programs would vary depending upon fluctuations in such factors as participation rate, participants' income, and housing production costs. For our purposes, we assumed that if, over time, changes in such factors do occur, there would be an equivalent offsetting change. That is, if incomes rise there would be an equivalent rise in rents, so the allowance would not change. Finally, we assumed that the 1970 census data pertaining to the number of families by income group earning \$10,000 or less annually was basically equivalent to the number of families in 1972, by income group, who were earning \$10,000 or less annually.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD pointed out that our estimates of the coverage and cost of a national housing allowance program were for renters only and stated that, if homeowners were included, as was done by HUD, our estimates would far exceed HUD's estimates. Section 504 of the HUD Act of 1970 specifically authorized

HUD to pay housing allowances to renters--not homeowners. (See p. 7.) For this reason we included only renters in our estimates. We are unable to comment on HUD's estimates because these estimates were not made available.

HUD stated that the C\* measures for the demand and administrative agency phases were developed on a specific site basis. (The C\* measure is an estimated fair market rent for an average existing standard unit in an average neighborhood.) For the supply phase--a large-scale program in which it is most critical that the C\* measure relate to what would be feasible in a national program--the estimated fair market rents have not yet been established. HUD therefore questioned our use of the average of the C\* measures for the demand and administrative agency phases in developing our estimate of the cost of a national housing allowance program.

The concept of developing a fair market rent should be no different for the supply phase than it was for the two phases already established. It would appear that to develop a C\* measure on other than a specific site basis could result in payment of a Federal subsidy which is not indicative of local market conditions; it also would not provide valid data on the reaction of the local housing markets.

We continue to believe that our use of the average C\* measure for those seven locations where the information was available is the best criteria available and does provide some indication of the estimated cost of a national housing allowance program.

HUD stated that our comparison of the unit cost of the three existing production subsidy programs and the section 23 leased housing program with the estimated unit cost of a national housing allowance program apparently included the programs' average costs rather than the marginal or incremental costs of subsidizing new additional units.

In our opinion, it is not possible to estimate the marginal cost of a housing allowance program because of the many variables involved. For this reason, we used HUD's estimated actual cost, as shown in the 1974 appropriation hearings, for the 2 million units supported by HUD under the

sections 235 and 236, public housing, and section 23 leased housing programs. We then compared these estimated costs with our estimate of the cost to provide housing allowances to the same families.

## CHAPTER 5

### NEED TO EXPAND EHAP

As previously mentioned, legislation was recently introduced in the Congress which would revise section 504 to specifically authorize including homeowners in EHAP. During testimony on the proposed legislation before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing, and Urban Affairs, on October 2, 1973, the Secretary of HUD stated that authority was being requested to broaden EHAP "to formulate and evaluate different operational approaches to cash assistance to see whether any are practical \* \* \*." He stated further that

"With the basic information from a broadened experimental program in hand, we would expect to be in a position to report to the Congress the specifics and final evaluation of an operational program by late 1974 or early 1975."

The Secretary indicated that any such national housing allowance program would initially be aimed at the elderly.

EHAP was begun as a social experiment. As such, the quality and usefulness of its results will depend upon its design. To be effective, the test environment should be such that results are readily obtained and can be extrapolated to cover the situation in most other urban housing markets.

However, EHAP sites may not be sufficiently comprehensive because no sites were selected from either low-quality or low-vacancy housing markets. For this reason EHAP's results may not provide a meaningful indicator of how a national housing allowance program will affect the urban housing market.

### SITE SELECTION

HUD selected 11 urban and 1 rural test site for EHAP. In selecting the sites, HUD was concerned with such factors as population size, population mix, rental vacancy rates, and other housing market characteristics. The vacancy rates and quality of housing at each site are of major importance in selecting sites because of the nature of the housing

allowance program. For example, it is important to know how families react in a tight housing market (when vacancy rates are low) as well as in markets with average and high vacancy rates. Also, it would be helpful to know how landlords and tenants react at sites with very low-quality, average-quality, and high-quality housing. The extent to which this information is available could directly relate to the predictive value of EHAP's result.

The vacancy rates for 9 of 11 EHAP sites range from 4.9 to 7.2 percent. The national average is 6.6 percent. Two of the sites have high vacancy rates but none of the sites have low vacancy rates. Vacancy rates for the EHAP sites as compared to the national average are shown in the following table.

In selecting the sites HUD did not measure the quality of existing rental units to determine whether they were standard. To assess the degree to which standard units might be available in the rental housing inventory at the 11 urban sites, we prepared an index of rental housing quality on the basis of the percentage of rental units lacking plumbing and the percentage of rental units constructed between 1965 and 1970.

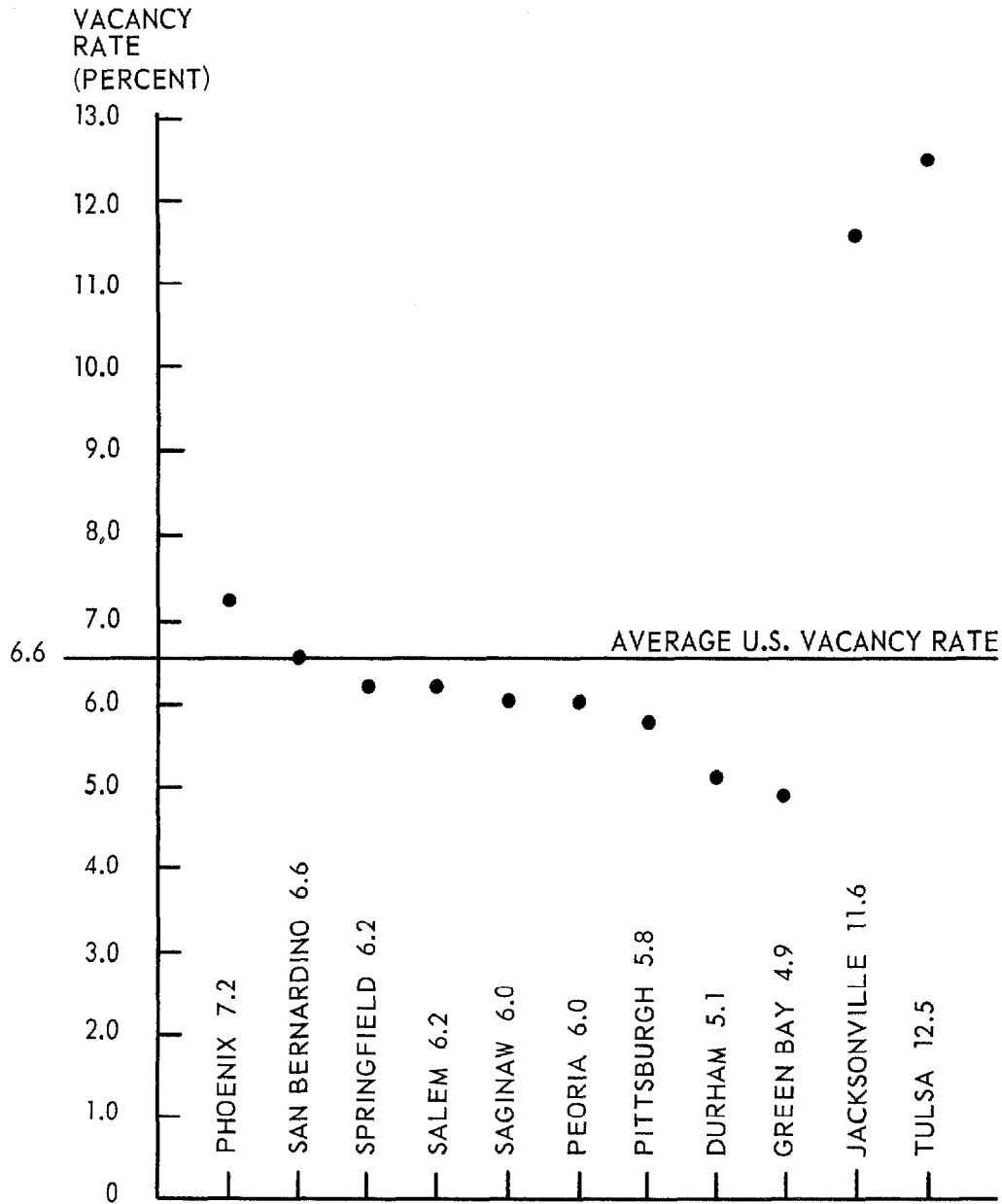
Using our housing quality index and the known vacancy rates, we compared the 11 urban sites with other large cities to determine how representative the test cities were of housing markets where a substantial portion of the Nation's urban population lives. We noted that the quality and availability of housing at EHAP test sites appeared higher than in many large cities in the Nation.

We believe that HUD should have chosen at least one site with a low vacancy rate and at least one with a low housing-quality index. We realize that EHAP is divided into three separate phases with a somewhat different objective for each phase; however, both extremes of the housing market should have been tested since a substantial number of cities have low vacancy rates or low housing quality.

### CONCLUSIONS

The current EHAP program should provide much information needed by HUD and the Congress to decide whether housing

## COMPARISON OF RENTAL VACANCY RATES FOR EHAP SITES WITH AVERAGE U.S. RATE



SOURCE: 1970 U.S. CENSUS

NOTE: THE NORTH DAKOTA EHAP SITE WAS NOT INCLUDED BECAUSE IT IS  
PRIMARILY RURAL.

allowances are a feasible alternative to present housing programs.

As presently designed and implemented, EHAP will not yield evidence of the impact of housing allowances on those markets with low housing quality and/or low vacancy rates, which are representative of many of the older, more populous metropolitan areas of the Nation. Also, there is uncertainty about the impact a housing allowance program will have on rental prices. Not enough data is available on costs, market effects, or landlord and tenant reactions to effectively implement a national housing allowance program for all needy families or even selected target groups at present. To obtain the information needed to make an informed decision, we believe EHAP should be expanded to include some test sites with low housing quality and some with low vacancy rates and that any decision on a national housing allowance program should be delayed at least until EHAP's demand phase is completed in 1977.

EHAP is a costly experiment and any decisions based on incomplete EHAP results would be premature and could adversely affect the benefits to be derived from a national housing allowance program.

#### AGENCY COMMENTS AND OUR EVALUATION

In commenting on our ranking of the 11 EHAP sites according to rental vacancy rates and housing quality, HUD stated that, since empirical information on the market impact of housing allowances is to be obtained only from the supply phase (conducted at 2 sites), it is inappropriate to analyze the other sites as if they were also selected for a supply experiment. HUD discussed other criteria which were considered in selecting sites for each of the phases.

Our purpose in ranking the sites in terms of housing quality and vacancy rates was not to imply that these were to be the only criteria but that these should be two of the most important criteria along with the others used by HUD in selecting representative sites.

With regard to our views that a site with low housing quality and low vacancy rate be tested, HUD stated that the criteria it used in selecting EHAP sites were adequate to

insure the valid generalizations about experimental findings, by means of direct inferences and analytical extrapolation, would be possible for most, if not all, sectors of the housing market. HUD stated also that expanding EHAP to include some test sites with low vacancy rates and low housing quality would involve a huge additional expense which could not be justified by experimental considerations.

While there may be a theoretical basis for generalizing about experimental findings by means of direct inferences and analytical extrapolation, we do not believe that the results can be validated with any degree of certainty. In any event, the data required to make the prediction will not be available until EHAP's demand phase is completed in 1977.

If HUD must wait until 1977 to determine whether its prediction as to the effect of housing allowances in a market with low housing quality and low vacancy rates is valid, we believe it would be more reasonable to actually test such a market during the experiment. The cost of expansion need not be huge, as HUD contends, for it would directly depend on the design of the experiment to be conducted, the size of the test site, and the number of participants enrolled.

HUD stated that, in its view, the data that will be available from the demand and administrative agency phases and the results of the housing market modeling activities will permit decisions regarding the first phase of a national housing allowance program by late 1974 or early 1975. We believe, however, that much more needs to be known about the impact of housing allowances before any portion of a national program is proposed and that information needed to make an informed decision will not be available at least until EHAP's demand phase is completed in 1977.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

EHAP is an experimental program authorized by the Congress to demonstrate the feasibility of providing low-income families with housing allowances to help them rent housing of their choice in existing standard housing units. Because the impact of a direct cash assistance program is unknown and because of the great cost involved, we recommend that the Congress, in considering future legislation authorizing a national housing allowance program, weigh the



benefit that could be derived from waiting until EHAP is complete and more information is available on the likely impact of the program.

Because the sites selected for EHAP were near average or above in terms of both housing quality and vacancy rates, we recommend that the Congress require HUD to provide assurances that the results achieved are representative of what might occur at other locations which have low housing quality and low vacancy rates and which are representative of many urban metropolitan areas.

## CHAPTER 6

### SCOPE OF REVIEW

We analyzed programs which were similar to EHAP, such as welfare shelter grants, military basic allowance for quarters, rent supplements, and leased housing and visited Durham, Green Bay, Jacksonville, Peoria, Phoenix, Pittsburgh, Saginaw, Salem, San Bernardino, Tulsa, Syracuse, and Springfield to obtain information on the likely impact of EHAP on the housing markets in these cities. Our visits included interviews with housing authority officials; military housing referral officers; welfare administrators; HUD personnel; EHAP contractors; experts on local market conditions, real estate, banking, mortgage, and management; and officials in State, county, and local government agencies.

We examined the results of housing allowance demonstration projects in Kansas City and Wilmington; a rent subsidy program in Honolulu; and six experimental projects involving the use of housing allowances in Baltimore, Boston, Chicago, New Haven, San Francisco, and St. Louis. We also reviewed reports on the operation of European housing allowance programs and looked into the operation of a welfare-based housing allowance program in Milwaukee.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410

January 18, 1974

Honorable Elmer B. Staats  
Comptroller General  
of the United States  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Staats:

This letter is to provide you with our comments on the draft GAO Report entitled: "Observations on the Experimental Housing Allowance Program," which was sent to Assistant Secretary Moskow by letter of November 20, 1973.

Our comments will first address the general observations and conclusions contained in the digest section of the Report and then will address the Report's recommendations.

[2]

Page 4, Improved Housing Quality. As an indication of the possible effectiveness of a housing allowance program, the Report cites the experience of other programs, some of which resemble a housing allowance program and some of which do not.

A military quarters allowance differs significantly from a housing allowance because the recipient is not required to spend the amount received upon housing, whereas, a housing allowance must be spent for shelter, i.e., rent and utilities, or homeownership costs. The military allowance is a simple income supplement. As such, it would be expected that only a small proportion of the payment would be used for housing and little improvement in housing condition would be observed.

The housing portion of a welfare payment may or may not be required to be spent on housing, depending on the state or local welfare system. In few systems, however, are the amounts of those payments sufficient for recipients to occupy decent housing. GAO cites an average monthly welfare payment

of \$43 per month for shelter. One could not expect this level of supplement paid to low-income welfare recipients to result in the rental of decent housing.

Therefore,

observations on the quality of housing obtained by participants in these programs are not directly relevant in predicting the effect that a national housing allowance program will have on inducing families to occupy standard housing.

[2]

Page 5, Impact of Housing Allowances. Under the heading "Impact of Housing Allowances" the GAO identifies two possible adverse effects of a full-scale housing allowance program. One, the amount of income eligible households have to pay for housing may increase. Two, the amount ineligible households have to pay may also increase.

The GAO reports the results of two analytical models of housing markets experiencing housing allowances. Both models indicate prices will rise for allowance recipients

The GAO commissioned model can be expected to overstate the extent of price increases because it does not permit landlords or builders to expand the supply of housing. The other model, done by the Urban Institute, does allow upgrading the new construction to occur over a 10-year period. It finds -- as GAO reports -- that one-third to one-half of the increased rents of allowance recipients went into higher prices. This means that two-thirds to one-half of the rent increase was for improved housing.

The developers of both models will surely admit that the results of their models are extremely tentative and highly questionable and that much further knowledge about the inflationary effects of housing allowances is needed. The Supply Experiment portion of EHAP is designed to provide direct housing market experience on exactly these questions.

[3]

Page 7, Estimated Cost of a National Housing Allowance Program. The GAO estimates of the coverage and cost of a national housing allowance program are for renters only. If homeowners were included, as is done in the two models developed by HUD, the GAO estimates would be far in excess of the HUD estimates.

The Report states that estimates were "determined by extending and extrapolating from the design of EHAP. This involves assuming that the national housing allowance program would use the same criteria and procedures as those applied to renter households participating in EHAP."

This assumption can be seriously questioned since, for example, all EHAP experiments exclude single non-elderly individuals from housing allowance eligibility. Yet the GAO Report includes this group in its estimate of participation in a national program. In addition, although there are common elements in the program design of the three EHAP experiments, the criteria and procedures vary somewhat in each experiment and indeed vary from agency to agency in the Administrative Agency Experiment. In particular, the C\* determination was done on a site-specific basis in the Demand and Administrative Agency Experiments. The process used there was tailored to meet the needs and schedule for those specific experiments. For the Supply Experiment -- which is a large-scale program and where it is most crucial that the C\* determination relate to what is feasible in a national program -- the values have not yet been established. Some simple extrapolation of the C\* values from the Demand and Administrative Agency Experiment to produce national estimates is, therefore, a questionable procedure. Indeed, it is not at all clear what assumptions do in fact underlie the GAO estimates.

[4]

Page 8, Comparison of Housing Allowance Cost. The GAO compares the unit cost of three existing production subsidy programs (public housing, Section 235, Section 236) and the Section 23 leased housing program with the estimated unit cost of a housing allowance program. The comparison showed that allowances would be more expensive than the production programs but less expensive than leased housing.

Several points can be made about the comparison.

## APPENDIX I

Second, the comparisons made apparently refer to the average costs of the programs rather than the marginal or incremental costs of subsidizing new additional units in different ways. For the production subsidy programs, it is clearly the case that marginal costs exceed average costs, due to rising construction costs and interest rates.

For leased housing and housing allowances, marginal costs can be expected to be much closer to average costs since they reflect rents that are currently being determined in the market.

As the GAO notes, the validity of the cost comparisons depends on assumptions. Different assumptions would produce different conclusions and we question the validity of the ones used.

Finally, the GAO approach considers the comparative costs of alternatives but ignores the comparative benefits. An alternative could be more costly but still prove to be superior.

[4]

Page 9, Need to Expand EHAP. The Report argues that EHAP as it is now structured will not provide information on the impact of a housing allowance program on housing markets with low vacancy rates and low housing quality. This conclusion was reached by rating eleven current EHAP sites with respect to rental vacancy rates and a GAO-developed housing quality index reflecting (1) the percentage of rental units lacking plumbing facilities and (2) the percentage of new rental units constructed in the period 1965-70.

It does not seem to us that the Report's conclusions are well supported by its analysis. In the first place, since empirical information on the market impact of housing allowances is to be obtained only from the Supply Experiment (conducted at two sites) it is inappropriate to analyze the other sites as if they were also selected for a Supply Experiment. In fact, they were chosen in accordance with criteria which are important with respect to the specific policy questions addressed by the Demand and Administrative Agency Experiments. For example, in the Administrative Agency Experiment very important criteria for selection over and above those mentioned in the Report are the agency type, size and jurisdiction, agency capacity to administer the program, and agency interest in participating in the Experimental Housing Allowance Program. The criteria for selecting the Demand Experiment sites involved not only market and population characteristics, population size, renter-vacancy rates, and renter/owner-occupied ratios, but also emphasized the cost of housing, degree of racial segregation, region of country, and the existence of other federal housing programs.

Secondly, the two Supply sites were to be chosen so as to maximize the chance of generalizing the findings on the market impact of housing allowances. It was determined that statistics

## APPENDIX I

on vacancy rates are subject to wide fluctuation from year-to-year and would be inappropriate primary criteria on which to base the selection of experimental sites. Similarly, although it would be desirable to use a measure of the "quality" of housing available to potential allowance recipients as a criterion for site selection, such data does not exist, and it is clear from preliminary results of the Demand Experiment that statistics on the lack of plumbing facilities do not form a useful proxy for this characteristic. A careful analysis indicated that among the available data items that describe the structure of SMSAs, the two most pertinent to the selection of Supply Experiment sites are the rate of central city growth and the percent of minority population. (The total population is also an important factor but budget constraints limited the size of possible sites to those having fewer than 250,000 people.) Accordingly, the two Supply sites were to be chosen primarily to bracket most of the nation's cities with respect to these critical dimensions. The first site selected -- Green Bay, Wisconsin -- has experienced relatively rapid growth and has a low minority population, while the second site -- as yet undetermined -- will be chosen from among those with slow growth and large minority population. Selection of two particular sites from among all SMSAs satisfying the above criteria was further guided by consideration of many other housing, population, and administrative factors.

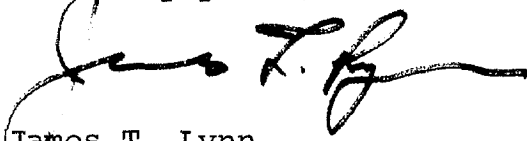
It is important to note that the Supply Experiment had to be limited to two moderate-sized SMSAs for budgetary reasons. Obviously, the selection of only two sites, no matter how they are chosen, is a severe limitation on the possibility of using experimental findings to make direct inferences about the impact of housing allowances on markets that differ significantly from the test sites. Thus it should be pointed out in the Report that a significant activity within the Experimental Housing Allowance Program will be the effort to generalize experimental results through analytical procedures. The Urban Institute has been given the major responsibility for integrating the findings of the three housing allowance experiments in an effort to estimate the probable impact of allowance programs in housing markets whose structures differ from the Supply Experiment sites. In addition, HUD has contracted for the development of sophisticated econometric models which will provide estimates of the impact of a housing allowance program on a range of housing markets.



In responding to the Report's recommendations, we feel that the criteria used in the selection of EHAP sites are adequate to ensure that valid generalizations of experimental findings will be possible for most, if not all, sectors of the housing market by means of direct inferences and analytical extrapolation. The GAO analysis does not adequately support the Report's recommendation that EHAP should be expanded with "some test sites with low housing quality and some with low vacancy rates." Such an expansion would involve a huge additional expense which could not be justified by experimental considerations. The Report also recommends that a national housing allowance program not be proposed until the Demand Experiment is fully completed in 1977.

In our view, the data that will be available from the Demand Experiment, the Administrative Agency Experiment, and the results of the housing market modeling activities will permit decisions regarding the first phase of a national housing allowance program by late 1974 or early 1975. Completion of the Demand Experiment in 1977 together with other results of the overall Experimental Housing Allowance Program will of course aid in shaping the later phases of a national program.

Sincerely yours,



James T. Lynn

cc: Wilbur D. Campbell  
Associate Director  
General Accounting Office

GAO note: Material has been deleted because of changes to the final report.

APPENDIX II

EHAP SITES AND RESPONSIBLE AGENCIES

<u>Phase</u>	<u>Site location</u>	<u>Number of families (note a)</u>	<u>Responsible agency</u>	<u>Years</u>
Supply	Green Bay, Wis.	4,750	The Rand Corporation	5
	Saginaw, Mich.	4,750	The Rand Corporation	5
Demand	Pittsburgh, Penn.	1,163	Abt Associates, Inc.	3
	Phoenix, Ariz.	1,163	Abt Associates, Inc.	3
Administrative agency (note b)	Springfield, Mass.	900	Massachusetts Department of Community Affairs	2
	Tulsa, Okla.	900	Tulsa Housing Authority	2
	Jacksonville, Fla.	900	Department of Housing and Urban Development for the Consolidated City of Jacksonville	2
	San Bernardino County, Calif.	900	San Bernardino County Government	2
	Salem, Oreg.	900	Salem Urban Renewal and Housing Agency	2
	Peoria, Ill.	900	Illinois Department of Local Government Affairs	2
	Durham, N.C.	500	Durham County Department of Social Services	2
	Morton, Burleigh, Stark, and Stutsman Counties, N. Dak.	500	North Dakota Department of Social Services	2

<sup>a</sup>Estimated peak enrollment.

<sup>b</sup>ABT Associates will provide overall administrative assistance and guidance in the administrative agency phase experiment.

HOUSING ALLOWANCE EXPERIMENTS  
AND DEMONSTRATION PROJECTS

<u>Housing market</u>	<u>Date of experiment</u>	<u>Responsible agency</u>	<u>Number of participating households</u>	<u>Average monthly housing allowance</u>
Baltimore, Md.	1967-70	Baltimore Welfare Department	250	\$ 24
Boston, Mass.	1964-67	Local housing authority	35	51
Chicago, Ill.	1966	Local housing authority	100	
Kansas City, Mo.	1970 to date	Private housing corporation	163	105
New Haven, Conn.	1966	Local housing authority	30	(a)
San Francisco, Calif.	1966	(a)	60	(a)
St. Louis, Mo.	1966	County development authority	20	(a)
Wilmington, Del.	1970 to date	Local housing authority	82	84

<sup>a</sup>Not available

APPENDIX IV

PRINCIPAL HUD OFFICIALS  
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
James T. Lynn	Feb. 1973	Present
George W. Romney	Jan. 1969	Jan. 1973
ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH (formerly Research and Technology):		
Michael H. Moskow	Mar. 1973	Present
Theodore R. Britton Jr. (acting)	Jan. 1973	Feb. 1973
Harold B. Finger	Apr. 1969	Dec. 1972

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