

INVESTMENT AT RISK: Public Housing in Minnesota

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Executive Summary

Across Minnesota, public housing provides safe and affordable housing to 36,000 low-income people, most of whom are in households headed by seniors and people with disabilities. This includes 12,000 children who call public housing home. There is public housing stock in 210 Minnesota communities, where it is owned and operated by 124 housing authorities. Funding largely comes from the US Department of Housing and Urban Development (HUD).

Public housing now stands at risk. Public housing properties, estimated to be worth nearly \$2 billion in Minnesota, are aging and require renewed attention and funding inputs. Substantial funding cuts and increased costs for public housing have left Minnesota's communities facing *loss of affordable units, deterioration of properties, and potential threats to the health and safety of residents*. Ultimately, the state of Minnesota stands to lose, if this vital safety net housing people at risk for homelessness is compromised.

In order to gauge the impact of shortfalls in funding for public housing in the state, this Minnesota Housing Partnership (MHP) study pairs original survey research of housing authorities with analysis of HUD data and other supplemental data. The report finds that substantial cuts in funding have led to an array of challenges for public housing agencies. Key findings from the MHP report are highlighted below:

RESIDENTS

- 65% of public housing households are occupied by heads of household or spouses who are elderly, disabled, or both, compared to a national average of 50%.
- The average income of a household in public housing in Minnesota is \$12,200.
- Nearly 3 in 5 households in Minnesota have been in their current public housing less than five years.

CHARACTERISTICS OF PUBLIC HOUSING

- Public housing occupancy stands at 97% of units in Minnesota, which is considered full occupancy by industry standards.
- The public housing stock is aging, with many properties requiring serious capital improvements. Only 5% of public housing nationwide is likely to be less than 20 years old, with the majority of stock over 35 years old.
- Over 55% of Minnesota public housing properties have 50 units or less, and only 4.4% of properties have 250 or more units.

FUNDING

- From 2002 to 2007 there was a reduction in regular HUD funding for public housing in Minnesota of nearly \$13.1 million, or 13.5% (in 2007 dollars).
- Funding shortfalls have been the rule for both capital and operating funding. Capital funding dropped 29% between 2002 and 2007.
- All but three of the 124 housing authorities with public housing experienced cuts in capital funding.
- Operating subsidies have been funded at less than actual need (as determined by HUD) every year since 2003. Operating subsidies were appropriated at only

83.4 cents for each dollar required in 2007, for an overall shortfall in operating subsidies to Minnesota of \$9.6 million in that year alone.

- Covering the costs of rising utilities costs and the high maintenance requirements of aging properties is becoming increasingly difficult. Utilities costs, which represent around 23% of operating expenses for public housing in the US, rose 41% between 2002 and 2007.

NEEDS OF HOUSING AUTHORITIES

- In the last five years, 196 public housing units in Minnesota have been sold due to financial necessity, with hundreds more at risk.
- Capital funding is the highest priority need for housing authorities, with maintenance and management also posing formidable challenges.
- In the face of financial difficulties, housing authorities are in some cases adopting policies with negative ramifications for very low income residents, such as increasing utility costs for residents, increasing minimum rents, and adopting preferences for higher income residents.
- Approximately 40% of housing authorities lack sufficient operating reserves, according to HUD standards.

If public housing is to continue providing decent and safe housing to low-income Minnesotans needing affordable places to live, it is imperative that public housing be funded adequately. This includes the use of multiple funding strategies, such as appropriations, bonding, and taxation at the federal and state levels. Both operating and capital funding must be addressed, so that housing authorities can afford operating costs, and so that capital investments can be made to retain existing properties. Without these changes, Minnesota's communities face a high risk for loss of affordable units and increasing threats to the health and safety of low-income residents.

I. Introduction

The public housing program, funded largely by the US Department of Housing and Urban Development (HUD), consists of housing stock owned and operated by a network of local housing authorities. Public housing forms one of the cornerstones of federal affordable housing policy strategy. This housing is meant to provide safe and affordable housing to low-income people who would otherwise lack adequate housing. Currently, public housing provides shelter to 36,000 people in Minnesota, including 12,000 children. Nearly two-thirds of households are headed by seniors and people with disabilities, including those with severe and persistent mental illness. However, public housing stands at risk. With an aging housing stock, long-term federal disinvestment, and a nearly complete lack of state funding, the risk of loss of units and decline in quality of the program is very real.

The Minnesota Housing Partnership (MHP) has undertaken a detailed study of public housing based on a survey of housing authorities across the state in order to better understand the challenges facing public housing in the current policy environment. This study is designed to provide a comprehensive overview of Minnesota public housing, including information about both residents and housing authorities. Original MHP survey data as well as analysis of data provided by Housing and Urban Development (HUD), HousingLink, Minnesota Housing (MHFA), and other sources form the basis of the report. Analysis of the utilization, funding, and monetary value of public housing as well as survey results from an MHP-administered study tell the story of a program at risk.

This report demonstrates the critical need to shore up resources for public housing for those who would otherwise face unaffordable rents, or worse, homelessness. With an aging housing stock heading towards serious crisis, urgent attention is required to stave off potential disintegration, decay, and loss of units.

II. Overview of Public Housing in Minnesota

Public housing is found in 210 different communities across Minnesota and houses over 20,300 households. The public housing properties are administered exclusively by 124 government agencies including Public Housing Authorities (PHAs), Housing and Redevelopment Authorities (HRAs), Community Development Authorities (CDAs), and Economic Development Authorities (EDAs). These entities are referred to collectively as Housing Authorities (HAs) in this report.¹ The HAs are responsible for all aspects of managing their property portfolios, including, maintenance, repairs, capital improvements, rental of units, and administration.² HAs vary tremendously in size, with those in larger communities, such as Minneapolis and St. Paul, managing dozens of public housing sites. HAs in rural regions frequently have only a small number of units in a single building.

In Minnesota, all but ten of the 124 HAs in the state are classified by HUD as “small” or “very small”, with less than 250 units each. However, the ten largest HAs account for 64% of the state’s units. Note that the size designation of the HAs in Table 1 reflects the number of units *administered altogether* by a housing authority, not the unit count of *any individual buildings*. That is, the HAs themselves frequently manage a variety of properties of various types and sizes, ranging from small, single-family, scattered site properties, to multi-family row houses to high-rise buildings. A “small” housing authority might have some large buildings in its portfolio, and a “large” housing authority will manage some

small properties. (See Appendices D and E for a full listing of Minnesota HAs administering public housing by location and size.)

Table 1: Size Distribution of Public Housing Agencies in Minnesota, 2007^{3,4}

HUD Size (based on units administered by a housing authority)	HUD Size Definition	HA Count	Number of Units Represented	Percent of Units in MN
Extra Large	Over 10,000 units	0	0	0%
Large	1,250-9,999 units	2	10,455	49%
High Medium	500-1249 units	1	1,101	5%
Low Medium	250-499 units	7	2,159	10%
Small	50-249 units	62	5,978	28%
Very small	1-49 units	52	1,652	8%
Total		124	21,345	100%

Although common notions about public housing elicit images of behemoth projects with hundreds of units beset by urban ills, the public housing in the state fails to conform to these stereotypes. Based on data from the *Picture of Subsidized Households, 2000*⁵ in Table 2, over three-fourths of public housing properties (excluding scattered site) in Minnesota have 100 units or less. Over 55% of properties have 50 units or less, and only 4.4% of properties have more than 250 units. Minnesota's properties tend to be smaller than the national average. For non-scattered site properties, the median number of units is 42, compared to a national median of 50 units.⁶ Scattered site properties are small-scale, low-density housing developments usually in lower-poverty neighborhoods. They usually have only one or a few units in each property, and account for an additional 1,474 additional public housing units in the state.

Table 2: Property Size of Public Housing Developments in Minnesota, 2000

Property Size (non-scattered site): <i>20,029 units</i>	Number of Properties	Percent of Properties	Cumulative Percent
1-10 units	28	10.4%	10.4%
11-25 units	61	22.6%	33.0%
26-50 units	61	22.6%	55.6%
51-100 units	56	20.7%	76.3%
101-249 units	52	19.3%	95.6%
250-500 units	10	3.7%	99.3%
over 500 units	2	0.7%	100.0%
total	270	100.0%	
Mean Number of Units	74 units		
Median Number of Units	42 units		
Scattered Site Properties:	<i>1,475 units</i>		
Total Units in 2000:	<i>21,504 units</i>		

A Diverse Minnesota Public Housing Stock



High rise building in Minneapolis



Multi-family apartment building in Scott County



Apartment building in Jackson



Scattered-site property in St. Paul

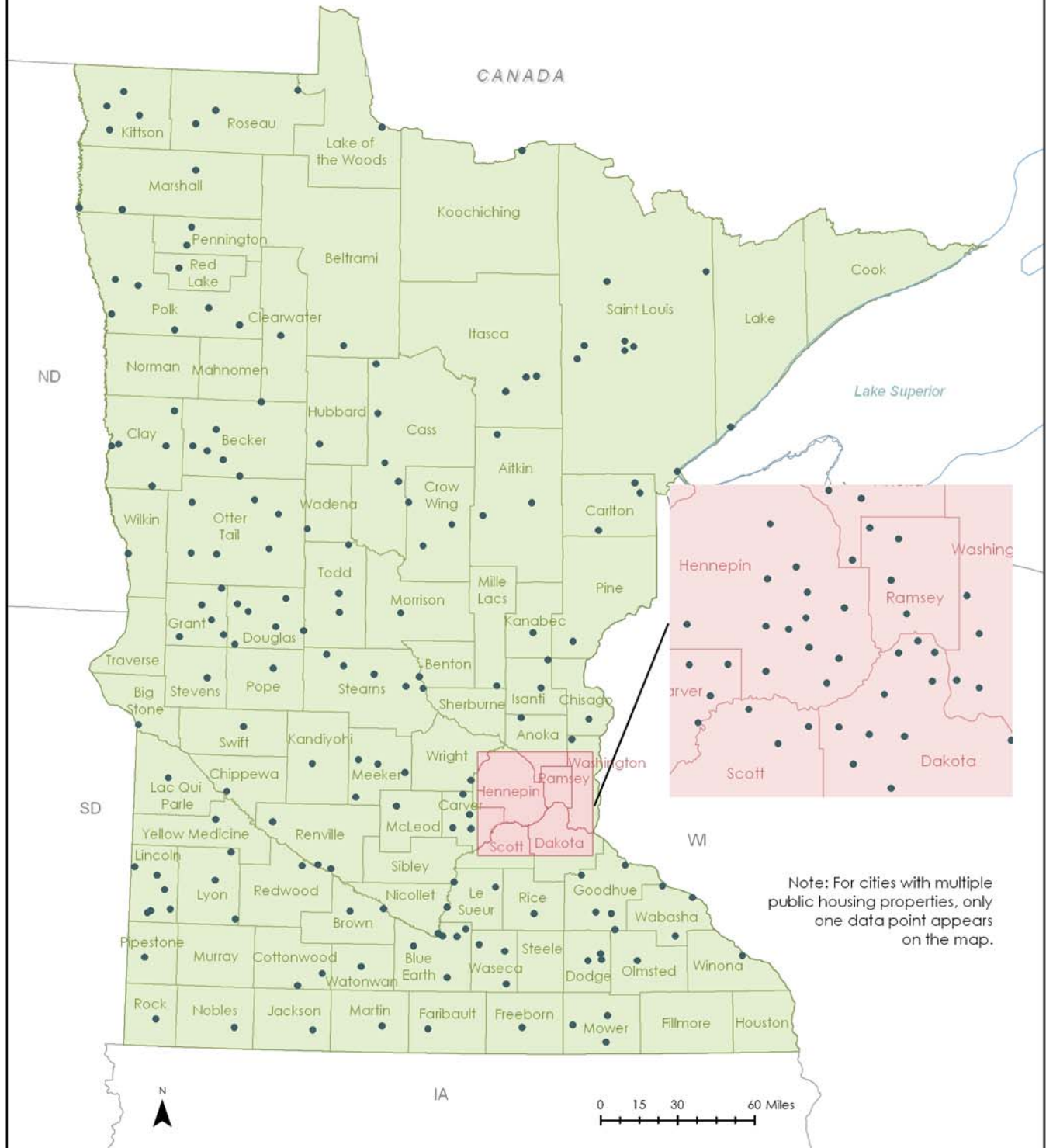
The public housing stock in Minnesota varies from large high rises to scattered-site single family homes.



Fairmont Homes in Duluth

Figure 1:

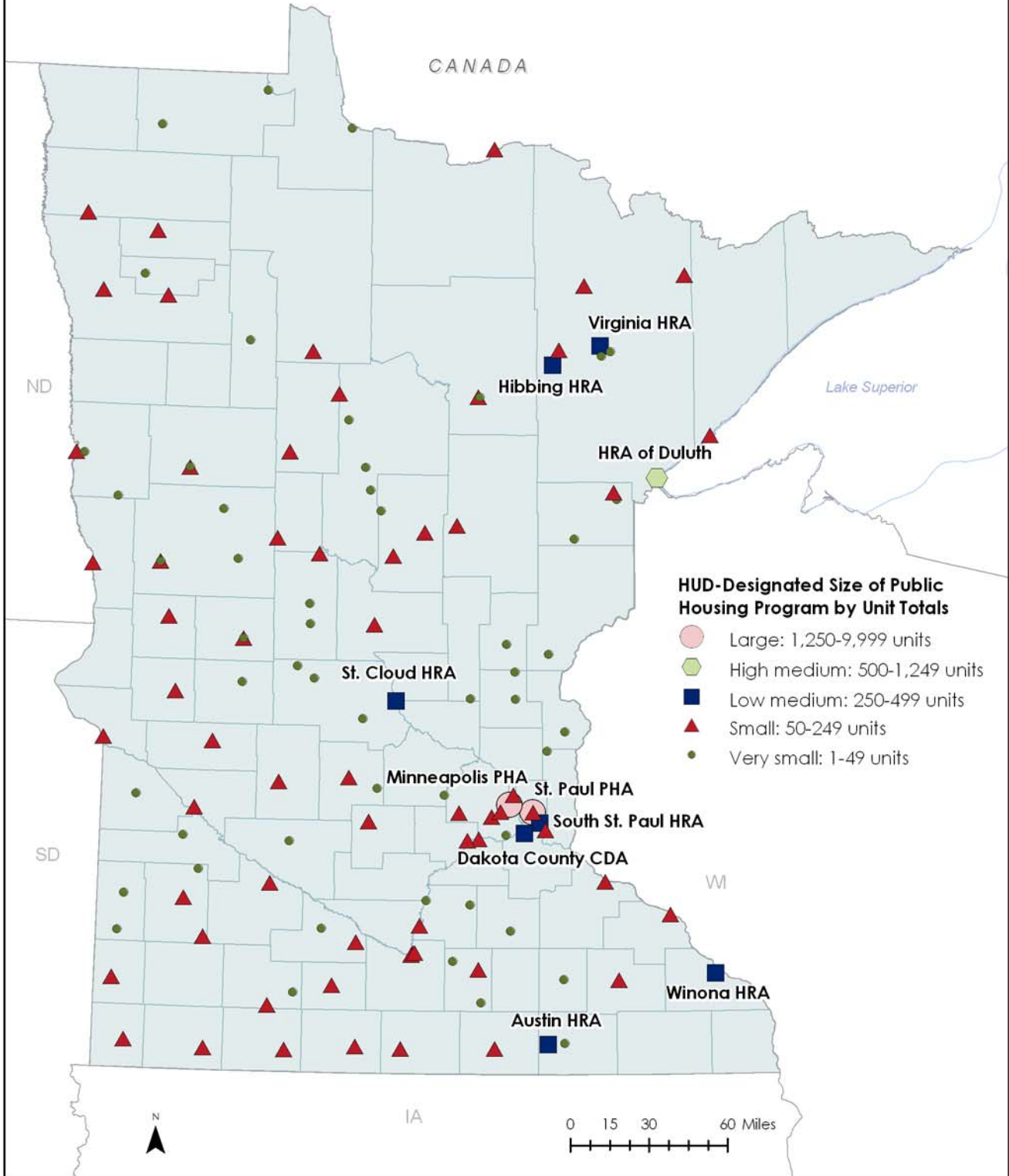
Localities with Public Housing by County, Minnesota, 2007



Note: For cities with multiple public housing properties, only one data point appears on the map.

Figure 2:

Location and Size of Housing Authorities with Public Housing, Minnesota, 2007



Inset 1: Who Lives in Minnesota Public Housing?

Except where indicated, figures are based on analysis of the May, 31 2007 Resident Characteristics Report from HUD which covers residents of all public housing authorities in the state.⁷

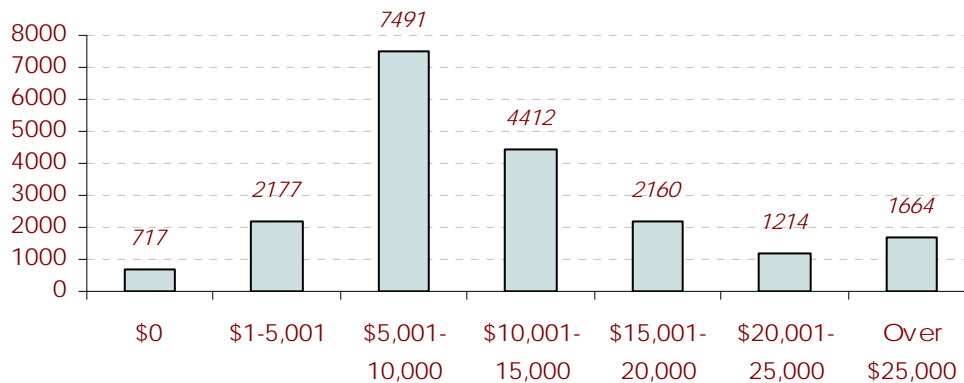
NUMBERS

Approximately 20,319 households, representing over 36,000 individuals, reside in public housing in Minnesota. About 4.2% of all Minnesota renter households, and 1% of all households, occupy public housing.⁸

INCOME

The average income of all households in public housing is \$12,187, compared to a national average of \$11,295.⁹ The average income of public housing residents in Minnesota is only about one-fifth of the median household income of \$54,023 for the state.¹⁰ Nearly three quarters of households in public housing in Minnesota have an income of \$15,000 or less.

Households in Public Housing by Income

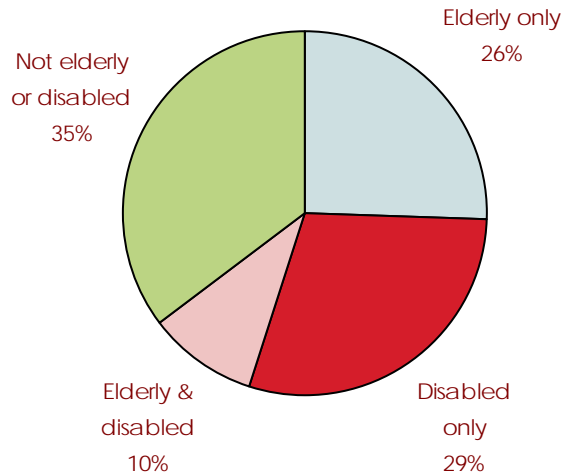


A substantial share of families in public housing has earned income. Approximately 30% of families in Minnesota public housing report income from wages. A lower rate of wage earning among residents (compared to 52% nationally¹¹) is probably due to a relatively higher proportion of residents who are seniors and/or have a disability (see below). National research has found that 90% of non-disabled public housing residents of working age have a history of being employed at some point in their lives, and that health problems are the biggest barrier to employment.¹²

SENIORS AND PEOPLE WITH DISABILITIES

Nearly 65% of public housing units in Minnesota have a head of household or spouse who is a senior, has a disability, or who is both a senior and has a disability. This proportion far exceeds the national figure, which is about 50%.¹³ Public housing residents, especially in Minnesota, comprise a population group that frequently faces serious obstacles to affording housing. Some residents with a disability suffer from severe and persistent mental illness, which places them at high risk for homelessness.

Distribution of Households in PH by Household Status



RACE AND ETHNICITY

Most households in Minnesota public housing are white, with Black/African-American households representing about 31% of households, and Asians representing about 9% of households.

Race/Ethnicity of Household	Number	Percent
White/Caucasian	11664	58.8%
Black/African-American	6059	30.5%
Asian	1746	8.8%
American Indian or Alaskan Native	348	1.8%
All others & multi-racial	17	0.1%
Total households reporting	19834	100.0%
Hispanic or Latino	467	2.4%

AGE OF RESIDENTS AND HOUSEHOLD SIZE

The average household size in Minnesota public housing is small, with 1.79 people. 71% of households have only one member, and children are present in 24% of households.

	1 Member	2 Members	3 Members	4 or More Members	Total
Number of Households	14122	1968	1332	2412	19834
Percent	71.2%	9.9%	6.7%	12.2%	100.0%

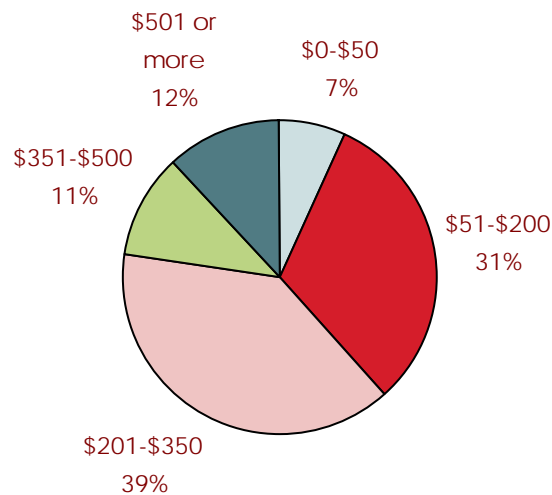
About one-fifth of individual residents are seniors aged 62 and older. About one-third of residents are children under the age of 18.

Age Range	Number of Individuals ¹⁴	Percent
0 to 17 years	11937	34%
18 to 50 years	11848	33%
51 to 61 years	4274	12%
62 to 82 years	5658	16%
83 and older	1756	5%
Total	35473	100%

RENT AND UTILITIES PAYMENTS

Households pay on average \$277/month for public housing, including both rent and utilities, though nearly a quarter of households pay over \$350 monthly. For most public housing households, the amount they pay is set at 30% of their adjusted income. (See Appendix C.)

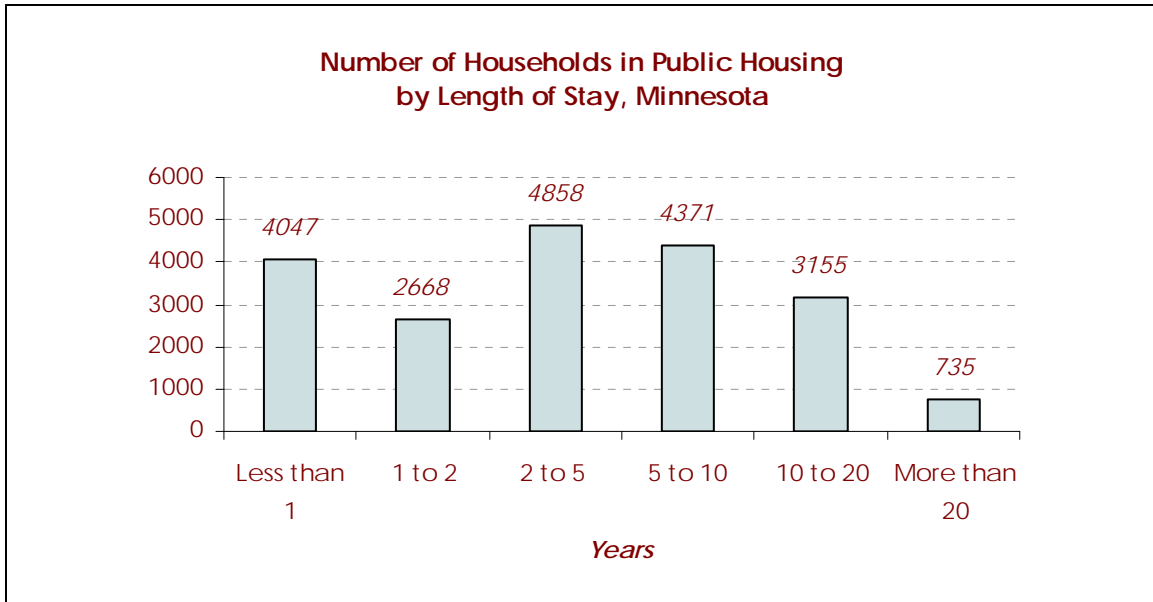
Monthly Total Tenant Payments by Households in MN Public Housing



LENGTH OF STAY

Despite the popular perception that public housing residents stay in their housing long-term, most residents have been living public housing for less than five years.¹⁵ Non-elderly and non-disabled households have the shortest stay in public housing.¹⁶

- In Minnesota, 34% of households have been in their current public housing less than two years.
- In Minnesota, 58% of households have been in their current public housing less than five years.
- National studies indicate that the median length of stay in public housing is about four years, and that non-elderly and non-disabled households have a median stay of only 2.25 years.¹⁷



III. Cuts Characterize Funding of Public Housing

It is not possible to understand public housing in Minnesota without first understanding the severe budget shortages that characterize public housing nationally. Michael Stegman, writing in 2002, describes the decline of federal funding for housing programs, of which public housing is a major component, and a lack of imagination for tackling the problem of insufficient affordable housing:

While almost all of HUD's new spending in 1976 was devoted to increasing the stock of assisted housing through construction, rehabilitation, and rental assistance, today HUD's spending is mostly for maintaining or improving the existing stock and renewing subsidy contracts.¹⁸

Certainly today's federal funding environment for public housing continues to be preservation-oriented, rather than production-oriented, and fails to promote an increase in the stock of units. Furthermore, there is a good case to be made that the funding that is appropriated is inadequate even for ongoing maintenance of existing properties. Public housing has been especially hard hit with an aging stock and increasing needs brought about by a long history of insufficient funding and budget shortfalls year after year. The consequences of this funding shortage for Minnesota's public housing can be seen throughout this report.

Two types of regular HUD funding for public housing are awarded directly to each HA every year: *funding for capital expenses* and an *operating fund subsidy*. Capital funding is meant for property improvements, major repairs, and renovations. The operating fund subsidy is granted to make up the difference between rent payments collected from residents and actual operating expenses. Operating dollars cover day to day expenses, including property management, utilities, and ongoing maintenance and small repairs. Analysis of HUD funding data for each of the 124 Minnesota HAs demonstrates severe

declines in funding. **Comparison of the funding levels in the five year period from 2002 to 2007 reveals a major funding reduction statewide of nearly \$13.1 million (13.5%) after adjusting for inflation.**

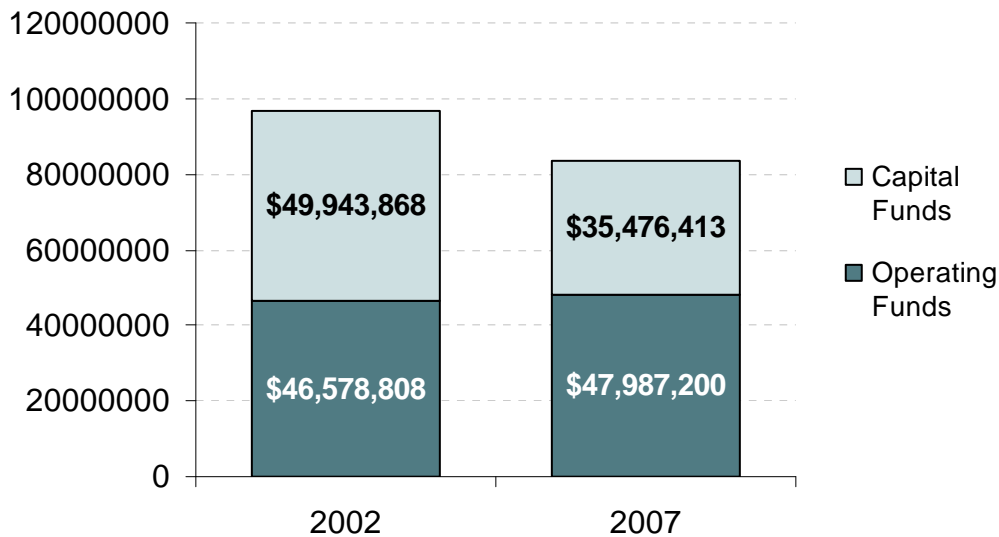
This pattern of overall funding losses is also seen at the level of individual HAs. Overall, 105 HAs had lower funding levels in 2007 than 2002. Fifty-four HAs saw reductions in operating funds, and 121 HAs experienced cuts in capital funding. Of the three HAs that saw increases in capital funding, one of them, the Metropolitan Council HRA, began its public housing program only recently and did not receive its first capital funding grant until 2004; a cut in capital funding would not have been possible for this HA.

Table 3: Changes in Funding Levels for Public Housing in Minnesota, 2002-2007

	2002 (in 2007 dollars)	2007	Dollar Amount Change	Percent Change	Number of HAs Gaining Funding	Number of HAs Losing Funding
Capital & RHF Funds^{19,20}	\$49,943,868	\$35,476,413	-\$14,467,455	-29.0%	3 (2.4%)	121 (97.6%)
Operating Funds²¹	\$46,578,808	\$47,987,200	\$1,408,392	3.0%	70 (56.5%)	54 (43.5%)
Total	\$96,524,677	\$83,465,620	-\$13,059,057	-13.5%	19 (15.3%)	105 (84.7%)

Figure 3:

**Public Housing Funding by HUD in MN
(in 2007 dollars)**



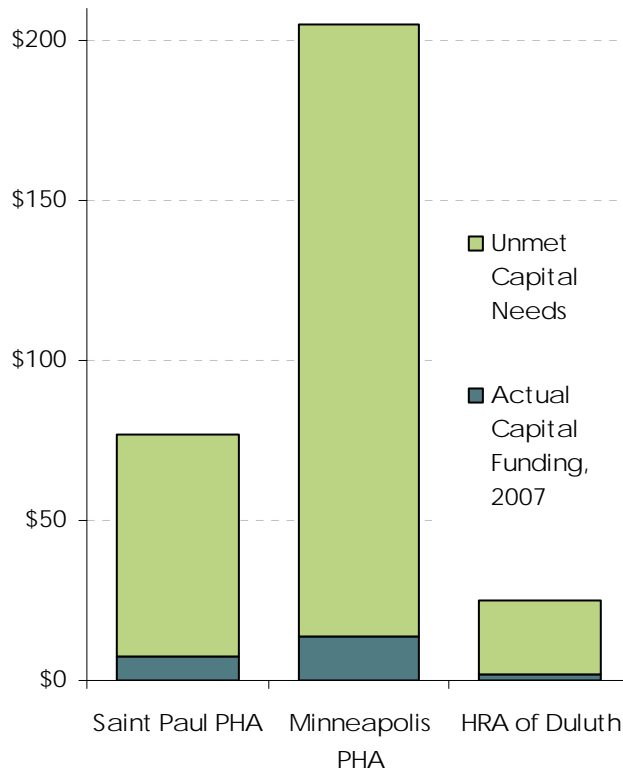
A. Capital Funding

Capital funding was hit hard between 2002 and 2007, with a decrease of \$14.5 million (29%) in that time period. The cuts in capital funding may be even more serious than this 29% reduction implies. These cuts come at the same time that capital needs are increasing, not decreasing, as properties age, and the backlog of needed repairs continues to grow. A 1998 HUD study found that capital needs were accumulating nationwide at a pace of \$2 billion annually, or \$2.54 billion in 2007 dollars. Furthermore,

this annual increase in need comes atop an estimated \$22 billion *backlog* of existing capital needs.²² The repercussions of this backlog in the Minnesota context will be discussed in greater detail in subsequent sections of this report. Rising construction costs, as well as the need to dip into capital funds to cover ongoing operations also contribute to the insufficiency of capital funds.

Thus, capital funding cuts, severe as they appear, are even more critical, given the accumulation of old needs, accrual of new needs, and shortages in operating funding. There is no indication of a likely change in this trend towards increasingly insufficient capital funding, with President Bush's budget calling for an additional cut of about \$7 million for capital funding for 2009. The depths of the shortage in capital funding can be seen in Figure 4, which compares capital needs to capital funding by HUD in 2007 for the three largest public housing programs in Minnesota: Minneapolis PHA, St. Paul PHA, and the HRA of Duluth. Together, these three HAs have a combined capital need that exceeds \$317 million.

Figure 4:
Capital Funding Gap, Largest MN
Public Housing Programs
(in \$ millions)



Inset 2: Aging Public Housing Stock

The age of the public housing stock is a key concern for housing authorities across the country, due to the serious needs for investment, maintenance, and renovation that naturally accompanies an aging stock. The table below represents the age of the public housing stock in 2003.

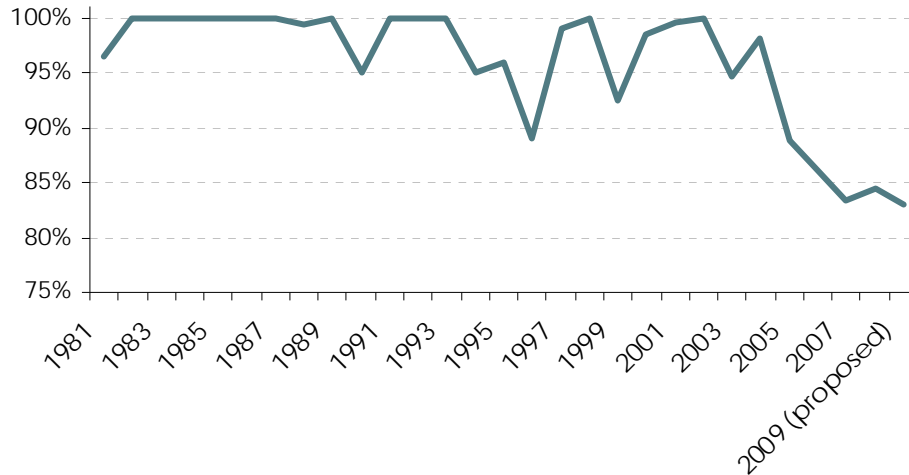
<i>Distribution of Public Housing Units by Property Age in 2003, United States²³</i>		
<i>Property Age</i>	<i>Number of Units</i>	<i>Percent of Units</i>
<i>< 15 years</i>	<i>63,901</i>	<i>5%</i>
<i>15-30 years</i>	<i>482,972</i>	<i>38%</i>
<i>30+ years</i>	<i>739,258</i>	<i>57%</i>
<i>Total</i>	<i>1,286,131</i>	<i>100%</i>

With the passage of five years since 2003, the year in which the most recent data was collected, well over half of today's public housing units are now more than 35 years old. Only a small fraction (less than 5%) is under 20 years old. The aging contributes to high operating costs and substantial need for capital improvements. (Note: While a few properties have been sold or demolished through HOPE VI since 2003 in Minnesota, the vast majority of properties still remain.)

B. Operating Funding

Analysis of the data reveals that funding for operations is stagnant. Growing operating expenses have not been offset by comparable increases in funding. In order to grasp the issues, it is necessary to understand how the operating fund subsidy is granted to each individual HA. Annually, according to a formula, HUD first estimates the amount of rent that will be generated by tenant payments to each HA. (This amount is not insignificant, and sometimes totals 50% or more of the entire operating budget for an HA.) The amount of the operating subsidy is then set at a level that should enable each HA to cover its remaining operating expenses. Finally, the actual operating subsidy amount awarded to each HA is pro-rated based on annual federal appropriations levels for public housing. Some years, the "pro-ration" is set at 100%, and HAs receive the full amount of their determined need. Other years, when federal appropriations are insufficient, the pro-ration is reduced, and HAs receive only a portion of their actual need. Throughout the 1980s and early 1990s, subsidies were most often funded fully, but since the mid-1990s, the pro-ration levels have fluctuated wildly, with rates dropping precipitously in recent years. The pro-ration levels were 83.4% in 2007, and are estimated at 84.5% for 2008. The President's budget for 2009 proposes a pro-ration of 83%. Housing authority officials report that the unpredictability of operating fund levels makes planning extremely difficult.

**Figure 5:
HUD Operating Fund Subsidy for Public Housing as a
Percentage of HUD-Determined Need, 1981-2009**



While total operating fund subsidies in Minnesota increased nominally in dollars ((by \$1.4 million) from 2002 to 2007, this has not resulted in additional money available for use by the HAs for operating expenses. Again, the primary reason for this is the pro-ration level of far less than 100%. Rising utility costs are also an important contributor. Regardless of operating fund amounts, utility costs must be met through the operating budget.²⁴ Utilities now comprise almost a quarter of HAs' operating expenses nationally.²⁵ Between June, 2002 and June, 2007, the increase in the consumer price index for fuels and utilities rose over 41%, compared to a rise in inflation of 16%.²⁶ Even as pro-rations are made at 84 or 85 cents on the dollar, HAs must still cover utility costs dollar for dollar. This presents challenges for even the most fiscally efficient HAs. In addition, the requirement that HAs shift to a new asset management approach has led to extra administrative costs for some HAs.²⁷

Common strategies to cope with operating dollar shortages involve utilizing scarce capital funds or agency reserves. Thus, a cycle of scarcity is established. When HAs economize on operating expenses, such as through deferring maintenance, this can set the stage for larger, more expensive capital needs in the future. And, with capital funding increasingly scarce, agencies cannot make the more comprehensive repairs that would enable them to reduce operating expenses. This double bind frequently limits the ability of HAs to manage their public housing programs efficiently and effectively.

The Relationship between Capital Expenditures and Operating Costs



When capital funds are available, HAs are able to make capital improvements that can reduce operating expenses in the long term. For example, installing energy efficient heating, ventilation, and air conditioning systems can significantly reduce utility costs. Similarly, deferred maintenance caused by operating fund shortfalls leads to increased capital expenses for the future.



C. Funding for Special Projects in Public Housing

Operating subsidies and capital funding grants represent the vast majority of regular federal funding earmarked for public housing. Some HUD money, however, is awarded to HAs for specific purposes on an irregular, project-by-project basis. The Minnesota history since 2000 of such awards, which cannot be used for regular, ongoing expenses, can be found in the table below, with greater detail in Appendix G. All in all, extra irregular federal funding for public housing has represented only a small fraction of total funding to Minnesota. This special funding averaged \$5.1 million annually from 2000 through 2007. Since 2005, less than \$100,000 has been awarded each year, however. By comparison, capital and operating funding totaled \$96.5 million in 2002 and \$83.5 million in 2007.

Table 4: HUD Funding for Special Projects for Public Housing in MN since 2000
(Figures not adjusted for inflation; see Appendix G for additional details)

Year	Amount	Number of HAs benefiting
2000	\$2,758,012	4
2001	\$2,808,745	4
2002	\$34,936,491	4
2003	\$350,000	1
2004	\$128,898	3
2005	\$ 0	0
2006	\$77,345	2
2007	\$99,666	3

Slightly more than \$34 million of the special funding in 2002 came from HOPE VI funding for revitalization of two projects: Harbor View Homes in Duluth and Heritage Park in Minneapolis. Unfortunately, HOPE VI grants, which fund the demolition, replacement, and revitalization of “severely distressed” public housing, cannot be expected to increase. In every year since 2004, there has been a proposal by the Bush administration to eliminate the HOPE VI program, and its funding has been largely gutted, dropping from \$750 million in 1992 to \$99 million in 2007 nationally.²⁸ In addition, most Minnesota properties would not qualify as “severely distressed” and would thus be ineligible. The Public Housing Drug Elimination Program (PHDEP), which accounts for all special projects funding in 2000 and 2001, was phased out as a separate program in 2002.

D. Funding from Non-Federal Sources

As previously discussed, the vast majority of funding subsidies for public housing after residents’ rent is collected consists of federal HUD money for capital and operating expenses. Non-federal sources, including state and local sources, currently make up only a very small fraction of funding for public housing in Minnesota. Non-federal funding also varies significantly from HA to HA.

With respect to funding from the State of Minnesota, support for public housing has been very limited. The only state funding for public housing has been a \$5 million one-time commitment in 2007 through the Preservation Affordable Rental Investment Fund (PARIF) program of Minnesota Housing (MHFA). This funding included a \$2.5 million appropriation by the legislature matched by \$2.5 million in Minnesota Housing reserves. State grants were made available to HAs in 2007 for operations, capital expenditures, or both for up to \$500,000 for larger HAs (250 or more units) and up to \$150,000 for smaller HAs (under 250 units). Awards were made on a competitive basis in early 2008 to 24 HAs.

The other funding sources available to HAs are local and internal sources. Some HAs have been successful in securing funds locally to bridge the gap between residents' rent, federal resources, and actual need.²⁹ When local funding is utilized for public housing in Minnesota, it most often takes the form of local levies, bond sales or special tax treatment. Data is not readily available about the amount of local funding secured by HAs for public housing, but HA administrators consulted for this study reported that local funding varies widely. For example, the City of Minneapolis has chosen to invest some resources in the public housing of the Minneapolis PHA as a strategy to combat the threat of urban blight posed by properties decaying due to lack of federal funding. However, this funding, which includes money raised through a local tax levy and a small amount of CDBG funds, totals only about 2% of the budget of the Minneapolis PHA. In other cases, such as the St. Paul PHA, local funding is unavailable, though this HA has undertaken creative revenue-generating measures such as leasing roof space on high-rises for cell phone antennas.

Sometimes HAs with the capacity to do so have chosen to funnel money internally from other elements of their housing programs to subsidize their financially burdened public housing programs. This shifting can then threaten to shortchange their other programs.

Inset 3: The History of Public Housing in the U.S.

The origin of the public housing program is usually traced to the U.S. Housing Act of 1937. The public housing established at that time was forged with hopes of meeting multiple goals: providing decent housing, transcending the urban decay of the Depression, and producing jobs through housing construction. Initially, public housing was not meant for the poorest of the poor, but as a stopgap measure for middle income earners unable to find affordable housing on the private market.^{30,31} Unlike today, at that time, rents paid by tenants were intended to cover all operating costs.³² The architecture of buildings built in the 1930's, a blend of European modernism and American traditions, was designed for an orderly, if stark, look and feel. This was meant as a contrast to the urban slums of the day, and embodied the idealism of the period.³³

After World War I, the 1949 Housing Act jumpstarted production of public housing once again after a wartime decline in construction. Most buildings of this period were three stories or less.³⁴ This Act is recognized as ushering in an important shift for public housing. With this Act, the target population for public housing was designated not as the working class, but as the very poor. Policies of rent limits and evictions of those with incomes beyond the poverty level resulted in increasing concentrations of the very poor in public housing.³⁵ The incomes of public housing residents began a descent from 64% of median income in 1950, to 37% of median income by 1970, to 22% by 1999.^{36,37}

By the late 1950s and into the 1960s, high-rises ascended as the architectural choice for public housing, especially in large cities such as New York, Chicago, St. Louis, and Philadelphia. Alexander von Hoffman notes that despite reservations by some, reformist "tower-in-the-park theorists subscribed to the notion that elevator buildings would reproduce earthbound neighborhoods in the air".³⁸ Construction in this period tended to be under-funded, with bloated expenses. Sadly, shortcuts in design and construction quality were all-too-common. In large cities, the siting of large projects tended to be in slum neighborhoods. This set the stage, starting in the late 1960s, for the image of public housing as a failure. While many projects justified this image, some projects, especially those for the elderly, tended to operate smoothly, contributing to quality of life and providing decent affordable housing. In fact, some failed high-rises formerly meant for

families have been converted for use by seniors with success, and high-rises in many rural areas have operated smoothly over time.³⁹

In the late 1960s and early 1970s, recognizing the myriad problems associated with large projects that integrated poorly within a neighborhood environment, the design of public housing projects changed once again. Many new projects were designed to look much more like other non-public housing dwellings, and to promote safety and community connection.⁴⁰ In 1968, through recognition of the failed experiment of large family projects, the building of high-rises for families was, in fact, prohibited by HUD.⁴¹ Congress ceased funding any new family high-rises in the 1970s, though far lower levels of production of high-rises for the elderly and low-rises for families continued into the early 1980s.⁴² Since 1981, the little public housing stock that has been constructed has been primarily scattered-site developments consisting of fifty units or less.⁴³

Financing for public housing also changed over the years. Operating expenses nationwide began, in the 1960s, to grow much faster than residents' income. In 1968, rent ceilings were imposed so that residents would pay no more than 25% of their income for public housing.⁴⁴ This increased to 30% in 1981, a figure which persists to this day.⁴⁵

From the early 1990s and continuing until today, virtually all new production of public housing has been funded through the HOPE VI program. HOPE VI was instituted 1993 for reconstruction, rehabilitation, and replacement of severely distressed public housing, primarily in the nation's 40 largest cities. (Severely distressed public housing contributes to neighborhood decline, has serious physical deterioration or design flaws, including that of overly high density, and has a high concentration of dependent residents and/or problems of crime.⁴⁶) The other major reform of the 1990s was the Public Housing Reform Act of 1998. Recognition of the problems stemming from extreme concentration of the poor in public housing led to this Act, which mandated that families with incomes below 30% of the area median income (AMI) make up 40% of new admissions for each housing authority, but that other households may have incomes up to 80% of AMI.⁴⁷ To this day, the higher income limits remain controversial due to a tension between concerns about the concentration of extreme poverty and the risk that housing authorities, under financial duress, will fail to serve those most in need by choosing higher income applicants.

IV. Public Housing in Demand: Occupancy Rates and Waiting Lists

In spite of the funding cuts that have beset public housing, public housing continues to be in high demand and well-utilized by Minnesotans, especially as housing affordability becomes increasingly elusive for low-income residents. While a small minority of HAs in Greater Minnesota experience challenges in keeping their units occupied, extremely high overall occupancy rates and long waiting lists point to the utility and continuing need for this public investment. This underscores the value that public housing has for those who need it: seniors, people with disabilities, and families living in poverty, the very people most at risk for homelessness.

Currently, about 4% of rental units in the state of Minnesota are public housing units, the same as the national average.⁴⁸ In order to be affordable by HUD standards, families should pay no more than 30% of their income for housing, including utilities. Here in Minnesota, the average family in public housing, with a household income of \$12,187 annually, would be able to afford approximately \$304 per month for rent and utilities. Statewide, the bottom quarter of rental units had a median cost of \$445 in 2006, excluding utilities unless they are included in the rent.⁴⁹ Even this amount would be

unaffordable to most of these families, who would struggle to find suitable housing, were it not for the public housing program.

The number of families in need of affordable housing is also growing. Between 2001 and 2006, the total number of renter households in Minnesota living in very unaffordable rental housing and paying over half their income for housing increased by 21%. Simultaneously, the number of units available for under \$300 a month declined 20% from 2002 to 2006.⁵⁰ Thus, while more families are paying higher proportions of their income for housing, fewer low rent units are available.

Results of the 2007 MHP survey bear out the need for public housing in Minnesota. When adjusted for the number of units held by each HA, the results show that **at the time of the survey, 97% of the public housing units were occupied statewide**. In the private rental market, a vacancy rate of 95% or higher is considered full occupancy. Out of the eighty-two HAs reporting their occupancy rate, only three had an occupancy rate of less than 80%.

The available information about waiting list times for entry into public housing in Minnesota also suggests that public housing is in high demand by residents. The Twin Cities-based non-profit HousingLink maintains data on waiting list times for public housing across the state (see Table 6). It is not possible to estimate an average waiting time for entry into public housing, because data is often reported in time ranges (e.g. 3 to 12 months) and waiting list times frequently vary by the type of unit (e.g. high-rise elderly unit vs. family units) even for the same HA.

However, it is possible to analyze the shortest and the longest waiting list times reported for each HA. This data reveals that at the time the information was collected in late 2007, only 8% of HAs reporting data had no wait at all for public housing. Five HAs (6.3%) had closed their wait lists completely, which is a step taken only when wait lists are already lengthy and there is no chance of new applicants getting into public housing within a reasonable timeframe. Altogether, 21% of HAs had a minimum wait of at least eight months for entry into any kind of public housing. More than three-fifths of HAs had a situation in which at least some kinds of units (typically family housing) required a wait of up to eight months or more. Thus, applicants for public housing face long waits in a majority of HAs for at least some kinds of units. This indicates that public housing availability is insufficient in many areas.

Table 5: Waiting List Times for Public Housing

Number of months	Minimum wait time ⁵¹		Maximum wait time	
	Number of HAs	Percent of HAs	Number of HAs	Percent of HAs
Zero	13	16.3%	6	7.9%
1 to 3	39	48.8%	11	14.5%
4 to 6	11	13.8%	12	15.8%
8 to 12	11	13.8%	17	22.4%
15 to 24	1	1.3%	18	23.7%
Over 24	0	0.0%	6	7.9%
Closed	5	6.3%	6	7.9%
Total reporting	80	100.0%	76	100.0%
Missing data	44		48	

V. Survey Results: Public Housing on Shaky Ground in Minnesota

The context of funding cuts and strong demand for aging public housing in Minnesota suggests that housing agencies themselves are apt to face increasing difficulties in managing public housing. To assess whether or not this is in fact the case, MHP conducted a survey of HAs across Minnesota in 2007. The MHP survey was designed to elicit information about how housing authorities are coping with budget shortfalls and to better understand potential implications for residents. It was created with input from public housing officials and local and national experts in the field of public housing so that information about priority needs and adaptive strategies in response to funding cuts could be collected. Eighty-three public housing administrators representing 84 HAs returned the survey, for response rate of 68% of HAs and 90% of units across the state. To provide additional texture about the needs of HAs, applications by HAs to Minnesota Housing (MHFA) for Preservation Affordable Rental Investment Fund (PARIF) program grants for public housing improvements were also reviewed. These data sources, including survey tabulation, open ended comments on the survey, and narrative quotes of the grant applications, paint a picture of crisis in public housing in Minnesota. (See Appendices A and B for additional details about data sources, methods, and survey questions.)

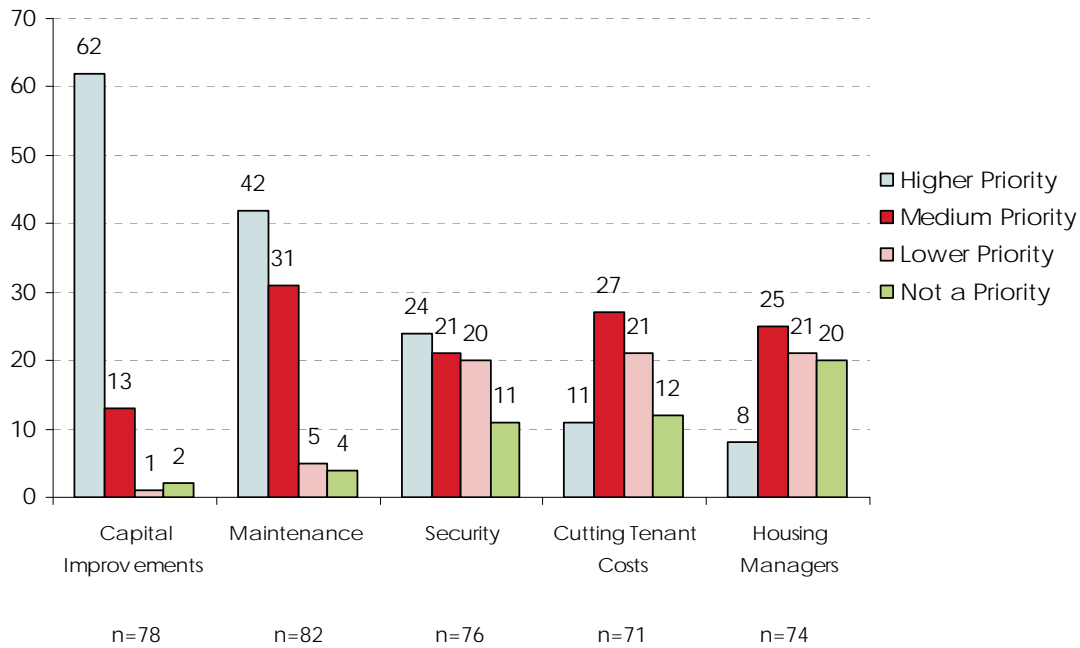
A. Capital Needs and Maintenance Top List of Serious Needs

In the MHP survey, housing authority administrators were asked to imagine that they suddenly had additional funding available, and to prioritize their public housing needs. While respondents described an array of important needs, funding for capital improvements clearly emerged as the highest priority need, with maintenance and security also posing formidable challenges for many HAs.

Of the HAs responding to the first question in which respondents were asked to prioritize needs, 62 (79%) ranked capital improvements as a "higher priority", and an additional 13 (17%) ranked it as a "medium priority". Only three HAs (4%) ranked capital improvements as a "lower priority" or "not a priority", which serves as an indication of the pervasiveness of capital needs across the state. Given the aging of public housing properties, this is to be expected. Maintenance also elicited a strong response as a high priority, with over half of respondents assigning it a higher priority, plus 38% assigning it a medium priority. Security, housing managers, and cutting tenant costs also were seen as important priorities by HAs, but clearly the nuts and bolts of property upkeep, repair, and replacement were the most pressing concerns.

Rather than existing as completely separate kinds of needs, capital needs and maintenance needs can overlap. In general, capital needs include replacement or upgrade of facilities (e.g. a new roof, a new boiler, renovation of units, etc.) which lengthens the life of a property, while maintenance refers to more routine repairs (e.g. repairing a leak in a roof, changing a filter, or repainting). However, older buildings and units are more likely to require more frequent and serious repairs. When capital improvements are deferred, greater maintenance can be required, and when routine maintenance is deferred, it can lead to future capital costs.

**Figure 6:
Rating of Funding Priorities for Public Housing
by Survey Respondents**



Respondents were then asked to select their HA's "most serious need". Capital improvements were seen as the most serious need by 57% of the respondents. Maintenance was selected by an additional 24%. These findings underscore the breadth of these needs across HAs in Minnesota.⁵²

**Table 6: Listing of "Most Serious Needs" in MHP Survey
(n=78)**

"Most Serious Need"	Number of times listed	Percent of total
Capital Improvements	49	57.0%
Maintenance	21	24.4%
Security	5	5.8%
Housing Managers	5	5.8%
Operating Subsidies	4	4.7%
Other	2	2.3%
Total Serious Needs	86	100.0%

In the MHP survey, in addition to the commonly mentioned needs such as roofs, siding, windows, and remodeling of apartments, some HAs stated needs directly relating to resident health and safety, ranging from carbon monoxide detectors to asbestos abatement, to wheelchair accessibility and emergency power generators, to security systems.

Serious Capital Needs: Examples from the Minneapolis PHA

Capital needs for public housing properties of the Minneapolis PHA include remodeling needs, decaying infrastructure, mold problems, and damaged foundations.



Capital improvements also stood out as the primary need among the 35 HAs that submitted applications to Minnesota Housing in October, 2007 for Preservation Affordable Rental Investment Fund (PARIF) grants for public housing. Applications could be made for either capital or operating expenses. However, 28 HAs applied for capital funding exclusively, five applied for both capital and operating funds, and only one applied for operating funds alone. Many of the applicants sought grant amounts equal to or in excess of the upper limit in the grant guidelines.

Table 7: Applications by HAs for PARIF Grants, October, 2007

	Large HAs (250+ units)	Small HAs (less than 250 units)	Total
Number of applications	7	27	34
Amount sought	\$5,200,000	\$4,400,000	\$9,600,000
Upper limit per agency in grant guidelines	\$500,000	\$150,000	

Comments from HAs both from the MHP survey and the PARIF applications give a flavor of the extent and seriousness of capital needs across the state.

Broadway Haus Apartments of the **New Ulm EDA** is a 40-unit public housing project for seniors and people with disabilities which requires mold remediation. The EDA has a 99% occupancy rate:

A potentially serious mold issue affects every unit and could even compromise the viability of the structure. Mold can especially affect the health of elderly persons and those with respiratory conditions. This is troublesome for a property that provides housing for seniors and disabled persons. HUD capital funding alone cannot cover the scope, and mold removal is just one of many capital funding needs.

Major renovations needed on a 30-unit property of the **Carver County CDA**:

We have a 30-unit property that was built in the 60's and 70's. It needs new siding, roof, windows, mechanical systems, kitchen remodeling and waterproofing of the basement. The cost of this project is over four years' worth of our capital funds-- funds that we receive to cover all our 81 units.

Interior and exterior needs of the **Warroad HRA**:

The interior of our building hasn't had any major updating in over forty years. We need to renovate the kitchens and bathrooms and replace all of the appliances. All of the lighting fixtures need to be upgraded and made energy efficient. We also need to continue replacing siding, windows, and sidewalks. Compliance with ADA [Americans with Disabilities Act] standards also needs immediate attention.

Capital needs impact residents in a **Jackson HRA** property:

We have a serious need for parking space at a building originally created for elderly-only residents. Central air units are also needed in our family housing. We put in new windows in these units a few years ago and the tenants were asked not to put A/C units into them, as it ruins them. We have families that are all sleeping in their living rooms on the floor and couches when it's hot in the summer. One tenant asked, "What good is a three bedroom unit when we're all sleeping in the living room on the floor?" The interior doors in our houses and high-rise units need to be

replaced. Many are in awful shape and we continue patching them up because we can't afford to replace them all. Our capital funds keep getting cut, so they go to major projects with the biggest impact, and we keep getting less and less done.

The **Hutchinson HRA** has a 101 unit high-rise housing primarily elderly and disabled families which requires serious repairs to the physical building, and important upgrades and renovation. The building is 34 years old with an occupancy rate of 99%:

Deteriorating caulking on the south and west sides of the building creates a risk of wall and sheetrock damage due to water infiltration along with possible mold issues. Re-caulking would protect the whole building envelope. Eleven apartments on the first and second floor require renovation, because the wiring and fuse box do not meet current code. The second floor laundry and corridor and first floor corridor also need updating. Modifying the ventilation system would improve ventilation and reduce energy costs by almost \$12,000/year. Our immediate needs are projected to be \$400,000, which surpasses the \$109,335 per year we are allotted for capital funding.

B. Operating Fund Reserves Are Running Low

While capital funding needs top the list as most urgent of issues, operating fund shortages are also serious. The number of months of operating reserves on hand serves as an indicator of the financial health of each HA's public housing program. Insufficient operating reserves suggest that public housing programs are not sound enough financially to weather temporary cash-flow shortages or increases in program costs. If there is an unexpected rise in utility costs, maintenance needs, or delayed grant awards, the HAs face may difficult financial decisions.

In order to evaluate the size of operating reserves of the HAs, the responses to the MHP survey were tabulated according to two standards. Al Hester, Housing Policy Director of the St. Paul PHA, explained that in past years HUD considered operating reserves equal

Table 8: Number of Months of Operating Reserves for Public Housing by HAs

Months	Number of HAs	Percent of HAs	Number of Units (ACC)	Percent of Units
0 or negative	5	6.8%	436	2.4%
.1 to 1.9	3	4.1%	337	1.8%
2 to 3.9	11	15.1%	7,206	39.0%
4 to 5.9	11	15.1%	1,090	5.9%
6 to 7.9	12	16.4%	6,876	37.2%
8 to 11.9	12	16.4%	1,196	6.5%
12 to 17.9	5	6.8%	1,076	5.8%
18 and over	14	19.2%	274	1.5%
Sub-Total	73	100.0%	18,491	100.0%
Non-responders (<i>question left unanswered [n=11] or survey not returned [n=40]</i>)	51		2,854	
TOTAL	124		21,345	

to six months of routine operating expenses to be sufficient for normal operations. However, HUD's newer standard now recommends an "Expendable Fund Balance" (EFB, similar to operating reserves) that varies in months according to the size designation of the HA. (See Appendix H for details).

Using the six-month standard, a significant minority (41%) of HAs lacked an adequate cushion of operating reserves. Accounting for the number of units that each HA manages, nearly half of Minnesota's public housing units surveyed (49%) were managed by a housing authority not meeting this standard. Using the EFB standards, 33% of HAs representing 46% of units held insufficient operating reserves.

Public housing managed by the **Sleepy Eye HRA** in Brown County enables low income elderly and disabled tenants to age in place, rather than move to a nursing home or group home. This provides a cost savings to both Brown County and the State of Minnesota. However, the HRA is being forced to use much of its capital funding for operating expenses, despite extensive capital need:

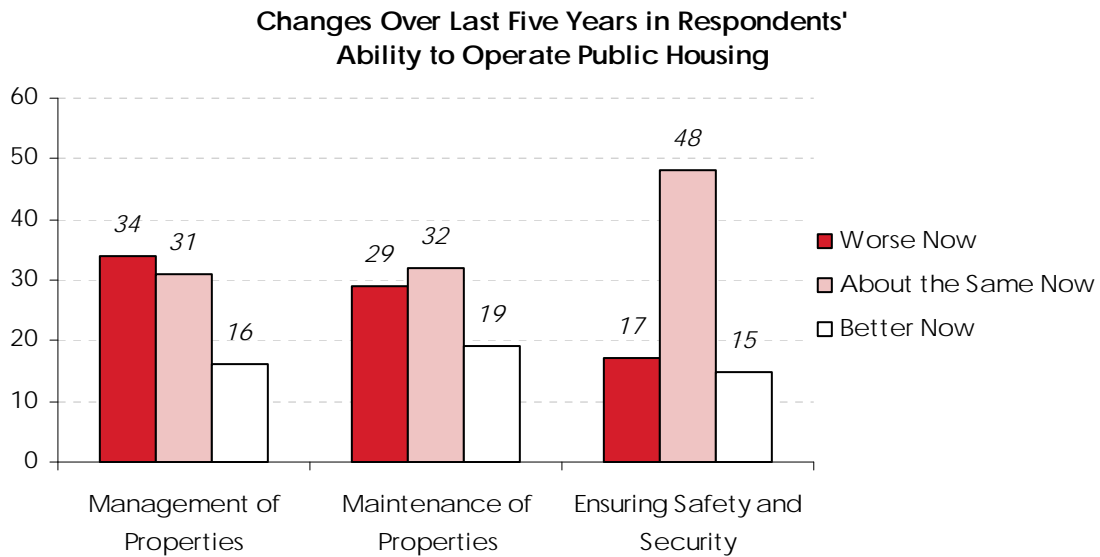
The Sleepy Eye HRA is currently using the bulk of 2007 capital funding to meet operating budget shortfalls and for a project to convert apartments from unpopular very small units to larger 1- and 2-bedroom units. The roof is in need of repair or replacement, vacated apartments need floor covering upgrades, interior community space flooring is in need of replacement, outside parking and drive-up areas need to be seal-coated, shrubbery is overgrown, and major replumbing projects are needed in the first floor units. The 2008 capital funding will be entirely consumed by the roof project. All other capital needs will be pushed back or put on hold for an additional 2-5 years.

C. Housing Authorities Worse Off than Five Years Ago

As properties continue to age and housing authorities experience repeated shortfalls in funding, the impact is increasingly likely to be felt on the ground. In order to get a sense of this impact over time, the MHP asked survey respondents to compare their HA's ability to administer their public housing program now versus five years earlier in three areas: management of properties (*leasing, occupancy, tenant issues etc.*), maintenance of properties (*repairs, groundskeeping, janitorial work, etc.*), and ensuring the safety and security of properties.⁵³

The results suggest an overall trend towards more hardship in administering public housing in recent years. With respect to property management, the number of HAs that reported decline over the last five years outnumbered those that reported improvement by more than two to one (34 worse vs. 16 better). Maintenance was also seen as more challenging now (29 worse vs. 19 better). With limited operating funds available and utilities costs rising, this is not surprising; the Center on Budget and Policy Priorities notes that almost half of non-utility operating costs borne by HA for public housing are for maintenance.⁵⁴ Comments made in the surveys also indicated that HAs tried to ensure safety and security of residents, despite challenges. About the same number of HAs reported this area to be worse now (17) as better now (15).

Figure 7:



Keeping up with maintenance in a milieu of insufficient funding and aging properties is challenging for HAs across the state.

Structural damage at the North Mankato HRA:

Many hidden costs are showing up such as water pipes cracking and leaking within the walls, causing damage on different floors. Our front soffit started to drop due to age of construction. We had to remove and abate it promptly for safety reasons.

Difficulty in making lasting repairs at the Hopkins HRA:

The lack of funds makes it difficult to make the needed repairs. Sometimes all we can do is put a band aid on the problem, rather than fix it right the first time.

Fewer repairs completed at the Renville County HRA/EDA:

We defer some routine maintenance, such as painting, carpeting, and replacement of fixtures and appliances longer now. We have eliminated lawn service at our apartment building and have deferred needed sidewalk and driveway repairs.

Especially for smaller HAs, new reporting demands were felt to cut into the ability of HAs to manage their properties well due to extra burdens on staff time.

Reporting regulations at the Cottonwood HRA:

There are now many more rules and regulations to follow and too many burdensome reports to fill out for a small PHA.

Lack of staff time at the Detroit Lakes HRA:

It takes more time to do all the reporting so, it is much harder to get the work done with the same size staff, and with less funding

Impact on clients at the **Jackson HRA**:

With so many more requirements, it takes quite a bit more time to get someone leased up now. Clients living in a state of crisis sometimes don't have the time to wait for all of the processing. We spend more and more time with reporting requirements and legal processes and we have less and less interaction with our tenants.

Security and safety were strongly valued and prioritized by HAs, which might explain why most HAs reported that their ability to ensure safety and security has remained unchanged in the last five years. Funding was a constant barrier for improving safety.

Funding needed for better security at safety at the **Warroad HRA**:

We need to upgrade our security surveillance equipment and address security issues, such as changing keys and locks on all interior, exterior, and apartment doors. We also need to eliminate the tripping hazards on our sidewalks and in our parking lots.

Less ability to ensure safety for those at risk at the **Morris HRA**:

We have an outdated security system, so residents simply open the doors for anyone they see coming. This greatly diminishes the safety of those who are seeking refuge from someone abusive. In the past we were better able to take time to help residents, especially the elderly, deal with the paperwork issues. Now, we simply don't have the time. For those without family, it becomes a tough issue for all of us.

Excerpts from a recent report on capital needs of the **St. Paul PHA** illustrated serious concern about resident safety but lack of funding to make needed changes:

Severe federal funding cuts have forced the PHA to suspend its long-range plan to install fire suppression sprinklers and replace fire alarm systems at its 16 hi-rise apartment buildings. Elderly and disabled residents of the PHA's hi-rises are at risk in the event of fire due to their frail and disabled condition. Vulnerable residents cannot be evacuated down the stairs, especially from the upper floors. Fire suppression sprinklers and an integrated fire alarm system would substantially reduce the risk factors for residents and fire fighters.

D. The Need for Cost-Cutting Risks Shortchanging Residents

Other survey questions were designed to probe for cost-cutting measures that could have negative implications for residents. Again, the survey found that fiscal needs frequently drive decisions of HAs.

Changes in tenant charges for utility costs

As mentioned previously, utility costs have increased substantially in recent years (41% between June, 2002 and June, 2007 versus 16% for inflation in the same period). These costs must be covered somehow, and in some cases residents are being asked to shoulder part of the burden.

The MHP survey asked HA respondents about ways in which they have changed utilities payments in recent years.⁵⁵ The results suggest that in a number of cases, residents, most

of whom have very low incomes, are facing increases in their payments. Seventy-four HAs responded to a survey question about any changes in tenant charges for utility costs over the last five years. 27% reported shifting more of the utilities costs on to tenants.

Most often, appliance surcharges for those appliances considered optional (air conditioning units, freezers, etc.) were either instituted newly or the surcharge amounts were raised. A few HAs increased coin-operated washer and dryer costs to residents. One HA delayed utility allowance increases for twelve months to save costs to the HA. This meant that residents bore the extra utility costs that increased beyond the existing allowance for that year. At least one other HA also is considering doing the same in the future.

There is no evidence that decisions to increase costs to tenants are being taken lightly by the HAs, and even in the short written questionnaire, a number of respondents expressed struggling with finding creative ways to manage increasing costs. Others simply acknowledged the difficulty of the situation for their HA and the extra challenges and financial drain this creates.

Renville County EDA/HRA staff concerned about impact of increased payments for residents:

We haven't made any changes in the way we charge for utilities. We have considered making the HRA pay the utilities and increasing the tenant rents by the amount of the utility allowance. However, this would have the disadvantage of making the tenants ineligible for energy assistance and of being a disincentive for conservation. High utility costs, especially in the winter in our scattered site properties, make it very difficult for residents with limited incomes to manage well on their budgets.

Use of savings at the **Pine River HRA**:

We haven't made changes in how residents are charged for utilities. We have had to transfer money from savings to operating accounts to cover utility expenses.

Changes in minimum rents

Under HUD rules, tenant payments of rent plus utilities are set for each public housing household at the higher of 30% of monthly adjusted income or at a minimum rent, usually \$25 to \$50. (See Appendix C for details.) In the survey, HAs were asked to describe any changes made to the minimum rent policy in the last five years as a way of gauging impact on residents. Of the 81 HAs that responded to this question, 18 (22%) changed their minimum rent policy in some way. Though one HA (1.2%) indicated a minimum rent decrease due to a requirement by HUD, the remaining 17 HAs reported a minimum rent increase or instituting a minimum rent policy for the first time. Two of the HAs that did not increase their minimum rents indicated that they did raise their ceiling (market) rents as a strategy to increase income to the HA, which would mean that higher-income residents able to afford market rent rates would pay more. In addition, one of the HAs that increased its minimum rent also instituted a \$25 late fee for rents as another income-generating strategy.

Changes in supportive services

A number of HAs offer at least some kind of supportive services to residents, and others refer out for such services. There was evidence from the MHP survey that changes in

supportive services by HAs followed funding streams.⁵⁶ All together, nine HAs indicated that they changed the supportive services they offered in the last five years. Four were service additions, four described losses of services, and one described both an addition and a loss. Comments from the survey suggested that many HAs would like to offer supportive services, but funding constrains their ability to do so.

Lack of staff to provide referrals and information at the **HRA of Duluth**:

We only have HUD funding under the ROSS [Resident Opportunities Self Sufficiency] program for service coordination for elderly and disabled residents. We do try to provide information and referral for the balance of the resident population, but have no dedicated staff for that purpose.

The **St. Louis Park Housing Authority** in a similar situation:

We have a service coordinator for the high-rise and an FSS [Family Self-Sufficiency] Coordinator serving our public housing and Section 8 participants. The hours for both positions have been reduced. However, we did just receive a ROSS grant for a service coordinator and will be increasing the hours.

Preferences for higher income households

As mentioned previously, the amount of money which an HA can charge a household for rent is based on the income of the household. Thus, higher income households can generate more money and be less of a financial drain for the HA. While the eligibility rules for public housing mandate that 40% of new households admitted within a HA must have incomes below 30% of the area median income (AMI), the remainder may have incomes up to 80% of the AMI. (See Appendix C.) Note that the operating subsidy granted by HUD to an HA declines when higher income households are admitted into public housing, because of the higher rent payments generated. However the extra income from tenants is not subject to potential operating subsidy pro-rations (*see Section III*). Thus, there is a financial incentive to admit higher income residents.

Of the surveyed HAs, 6 (8%) of the 79 respondents to this question stated that they changed their policies in the last five years towards favoring higher income applicants in the application process, and three others volunteered information (without being asked explicitly) that they are considering such a change. One more explained that such preferences have been in place in excess of five years, which means that it would not show up in the survey responses. This may be the case for other HAs as well. Given the potential sensitivity of asking such a question, even this voluntary response by HAs is notable.

From the **North Mankato HRA**:

We do not favor higher income applicants, but we do have an Admissions and Continued Occupancy Policy that includes students, and they often pay higher rents.

From the **Red Lake Falls HRA**:

We eliminated rental concessions to attract students and will accept higher income households if there are no lower income applications.

Sale of public housing properties

Sale of public housing properties due to financial burden represents the "last straw" for HAs struggling to keep their programs afloat financially. It also represents a serious loss in

the public investment in public housing and a failure to preserve affordable housing. Between 1999 and 2005, over 100,000 units of public housing are estimated to have been lost nationwide, despite the fact that there has been no decline in the need for affordable housing.⁵⁷ These patterns are reflected in Minnesota, too, with an ongoing loss of public housing units, the possibility of additional losses in future years, and no reduction in housing need.

In order to ensure complete information about the number of properties actually sold or demolished, data was requested from HUD to supplement survey data. **According to HUD, since 2002, 196 public housing properties have been sold or demolished**, not including 200 severely distressed units demolished through HOPE VI.

The MHP survey also asked HAs to report any sale or considered sale of public housing units in the last five years. In response to this question, 17.5% of respondents reported that they have sold public housing properties over the last five years or are considering future sales. This includes 7.5% that reported actually selling public housing properties. In total, survey respondents reported that they were considering the sale of 329 units. Although some of these HAs will replace lost units with Section 8 vouchers or other programs, the survey indicates that there is no plan to replace at least 170 of units under consideration for sale. Conflicting interpretations of policy leave questions about whether or not HUD is legally required to replace units lost through sale. Currently, HUD provides funds for lost units through Replacement Housing Factor (RHF) funding to the HAs that qualify, but the level of RHF funding is too low to replace lost housing unit for unit. (See endnote 19 for more information.)

Table 9: Number of Units Removed from Public Housing Stock, 2002-January, 2008*

Housing Authority	Sold	Demolished	Total Loss	Outstanding requests to HUD for Sale/Demolition
Blue Earth County EDA	9		9	
HRA of Duluth	4		4	
Hibbing HRA	60		60	
Hopkins HRA		10	10	
Mankato EDA				1
Minneapolis PHA	4	2	6	5
Moorhead PHA		46	46	
Northwest MN Multi-County HRA	15		15	
Scott County HRA		14	14	
St. Paul PHA	32		32	6
TOTAL	124	72	196	12

*Duluth had an additional 200 units demolished through a HOPE VI revitalization grant in 2004-5.

Four of the Greater Minnesota HAs cited a high vacancy rate as a factor influencing sale of properties; in three of the four cases this reason was paired with other reasons such as high maintenance costs or lack of funding. One HA cited population decline as the reason for high vacancy rates. However, given the extremely low vacancy rates across the state, this situation is the exception more than the rule. Generally, high maintenance and operating costs lead to the decision to sell.

Sale of public housing properties is cause for concern, both because of the loss of affordable housing stock, and because of the extremely high replacement cost of affordable housing. By one 2004 estimate, new construction of affordable housing in Minnesota costs \$120,000 to \$185,000 per unit, which is \$132,000 to \$203,000 in 2007dollars.⁵⁸

A couple of HAs facing imminent sale of units were able to retain units only because of recently awarded state PARIF public housing preservation grants (see Sections III and V for more information).

Clay County HRA planned to sell its 24 units of scattered-site public housing at the time of the survey in 2007 due to extremely high maintenance costs and capital needs. These units started operating at a loss in 2003-2004. With receipt of a PARIF grant from Minnesota Housing in early 2008, these HRA is able to retain these units.

The **St. Paul PHA** was also able to retain 7 single family scattered site units through a PARIF grant made in early 2008. However the PHA sold 18 units in 2004, and 9 more in the past year. These sales were due to high rehabilitation costs and operating expenses. For an average expenditure of \$10,000 to \$30,000 per house, the PHA will now be able to upgrade interiors and exteriors on the 7 preserved properties to reduce long-term maintenance and operating costs.

VI. The Value of Public Housing

The evidence in this report suggests that public housing provides much-needed affordable housing to low-income Minnesotans, but that it is under-funded. This leaves the door open to growing financial strains and potential loss of additional units. In light of this, it is important to quantify the monetary value of the public housing stock in Minnesota. The value of the public housing stock tends to be challenging to assess, and various techniques have been used to compute a reliable estimate.⁵⁹ This study uses the actual insured value of public housing properties, as reported by MHP survey respondents, as a “best guess” about the monetary worth of Minnesota’s public housing stock. This figure, which totals approximately \$1.97 billion dollars (an average of \$92,097 per unit) gives a conservative estimate of the true value of public housing. (See Appendix I for details.)

This figure is considered an estimate most importantly because it fails to account for replacement costs, which run far higher (see “Sale of Public Housing Properties” in previous section). Also not included in this estimate is the value of the rental subsidy to residents as a supplement to their disposable incomes, money saved by prevention of homelessness, economic contributions of residents enabled by the existence of public housing, and economic contributions through investment and expenditures by housing authorities themselves.⁶⁰

In addition to the monetary value of public housing, there is also value in the provision of homes to people who might not otherwise have suitable shelter. Public housing residents are frequently vulnerable to homelessness, due to having a disability, including severe and persistent mental illness, or being a very low income or senior, and public housing has value to people who could face the personal devastation of homelessness.

VII. Conclusion

With funds for public housing in Minnesota dropping 13.5% in real terms over the last five years, public housing is at a crossroads. The housing stock across the country is aging, with well over half of all public housing units being in buildings more than 35 years old. The evidence shows that the Minnesota public housing stock, worth nearly \$2 billion, has hundreds of millions of dollars' worth of capital and maintenance needs. In some cases, failure to make needed improvements poses serious risks to the health and safety of residents. Operating reserves tend to run low, which can place basic property management and resident services at risk. With repeated under-funding by the federal government and lack of any major state funding public housing, HAs are feeling pinched. They report that their ability to manage public housing programs has declined in the last five years. Minnesota HAs, like HAs throughout the country, show evidence of passing more charges on to tenants, sometimes opting for less financially needy residents due to their ability to pay more, and reducing staffing and maintenance. Ultimately, under-funding is leading to loss of units, as HAs sell off properties for which there is not money to maintain.

Unless the funding scenario changes, public housing faces an uphill battle in providing decent affordable housing to 36,000 Minnesotans, many of whom have no other good housing option. Federal, state, and local governments need to shore up resources to protect public housing, an important public investment in jeopardy due to disinvestment over the course of years.

References and Notes

- ¹ According to the Eastern Woodlands Office of Native American Programs (ONAP), there are 1,335 low-rent units akin to public housing on Minnesota reservations. These units are administered by Native American tribes or Native American Housing Authorities. Prior to the Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA), public housing for Native Americans was funded by HUD grants under the Indian Housing Program. With the passage of NAHASDA, the Indian Housing Block Grant (IHBG) program replaced the Indian Housing Program. The IHBG program funds housing development, assistance to housing previously developed under the old Indian Housing Program (such as for low-rent units), housing services to eligible families and individuals, crime prevention and safety, and other activities. However, this report focuses on the public housing program funded directly through HUD and managed by the non-Native American housing authority system.
- ² HAs frequently administer other programs in addition to public housing, such as Section 8 rental assistance and affordable homeownership programs. Not all HRAs in Minnesota have public housing programs.
- ³ In HUD's Resident Characteristics Report (RCR) for each HA, two different figures are reported for number of units. The *50058s required* figure serves as the closest approximation of number of units currently in use by tenants. *50058* refers to form "HUD-50058" which must be submitted annually to HUD by HAs for each household in public housing. This figure includes only occupied or unreported units, and excludes vacant units or units used for other purposes. The *ACC units* (Annual Contributions Contract) figure is the sum total of all occupied units, vacant units, units under renovation, and units used for other purposes by the HA. The *ACC units* figure overestimates the actual number of units available to tenants, because some physical units have been merged, are unusable, or are used for program purposes by the HA, etc. The *50058s required* figure slightly undercounts the units available to tenants because it excludes units under renovation or vacant at the time of reporting. However, given the low overall vacancy rates reported by HAs surveyed, vacancies are limited. In cases of analysis of physical structure, *ACC units* is used. In cases of analysis of residents, *50058s required* is used. See http://www.tenmast.com/Portals/5/_assets/downloads/PIH_Notice_2006-36-Unit_Status_Designations.pdf for more information.
- ⁴ The number of ACC units is used in assigning a HUD size designation (large, low medium, small, etc.)
- ⁵ Information downloaded from HUD website on December 20, 2007 at <http://www.huduser.org/picture2000/>. Since 2000, the most recent year for which data is publicly available, changes to the public housing stock in Minnesota have been minimal, and the numbers should remain largely accurate. Currently East Grand Forks HRA no longer has public housing (it had 71 units in 2000). Three HAs (Metropolitan Council HRA, Carver

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- County HRA, and Washington County HRA) with a total of 296 units in 2007 did not have public housing properties listed in 2000. Some HAs have also sold a few properties.
- ⁶ Staub, Leah (October 11, 2007) "Public Housing Background Information" memo, *Center on Budget and Policy Priorities*. Note that mean number of units in Minnesota is 74, compared to a national mean of 90.
- ⁷ Analysis is based on 19,834 households reporting data. Reporting households account for 97.6% of all units for which 50058s are required (see note 3).
- ⁸ 2,042,297 households live in Minnesota, of which 484,091 are renter households. American Community Survey, US Census Bureau, 2006
- ⁹ HUD Resident Characteristics Report, April 2006 as reported by the Council of Large Public Housing Authorities <http://www.clpha.org/page.cfm?pageID=126> accessed January 3, 2008.
- ¹⁰ American Community Survey, US Census Bureau, 2006.
- ¹¹ Riccio, James A. (2007) "Subsidized Housing and Employment: Building Evidence about What Works to Improve Self-Sufficiency", Working Paper, *Joint Center for Housing Studies*, Harvard University.
- ¹² Martinez, John M. (September 2002) "The Employment Experiences of Public Housing Residents: Findings from the Jobs-Plus Baseline Survey", *Manpower Demonstration Research Corporation (MDRC)*.
- ¹³ *General Accounting Office (GAO)* (2005) "Distressed Conditions in Developments for the Elderly and Persons with Disabilities and Strategies Used for Improvement" Report GAO-06-163, <http://www.gao.gov/new.items/d06163.pdf>.
- ¹⁴ Based on 19,834 households representing 35,473 individuals for which household size data is available.
- ¹⁵ Data on length of stay in public housing does not account for residents who lived in public housing administered by a different HA previously. Nor does it capture household splits, such as when a child of a resident becomes an independent resident of a new household in public housing.
- ¹⁶ Thompson, Diane (2007) "Evaluating length of Stay in Assisted Housing Programs: A Methodological Note," *Cityscape: A Journal of Policy Development and Research*, Vol. 9, no. 1: 217-238.
- ¹⁷ Thompson (2007)
- ¹⁸ Stegman, Michael (Summer 2002) "The Fall and Rise of Public Housing" *Regulation*, 64-70.
- ¹⁹ Capital funding includes both standard capital funds plus Replacement Housing Factor (RHF) fund grants. RHF grants are made to HAs to develop or acquire public housing units to replace demolished or sold units. RHF funds can be used only for units that have not been funded by other public housing development programs (e.g. MROP, HOPE VI or other programs). RHF grant money is disbursed to eligible HAs for five years, and an application may be made for an additional five years of funding. See <http://170.97.167.13/offices/pih/programs/ph/capfund/rhfguidance.pdf> for a fact sheet on RHF's. In Minnesota, in 2002 three RHF grants were issued totaling \$3,998,100 (in 2007 dollars). In 2007, six RHF grants were issued totaling \$680,462.
- ²⁰ In 2002, the Bemidji HRA did not claim all of the capital funding for which it was eligible due to lack of obligating funds by the deadline, so the unclaimed funding was recaptured by HUD. For the analysis of changes in funding levels, the amount of funding for which the HRA qualified, rather than the amount actually disbursed, was utilized.
- ²¹ In 2002, HAs received their operating subsidy funding on individual fiscal year calendars, rather than on a standard calendar year, as is now the case. Thus, 2002 operating funding represents the amount awarded at some point during 2002 to each HA, though the time of the award differs between HAs.
- ²² Abt Associates (2000) "Capital Needs of the Public Housing Stock in 1998: Formula Capital Study". Prepared for US Department of Housing and Urban Development. A new capital needs study of public housing is scheduled to be conducted in 2008.
- ²³ *Harvard University Graduate School of Design* (June, 2003) "Public Housing Operating Cost Study: Final Report" in Appendix A. Prepared for the U.S. Department of Housing and Urban Development.
- ²⁴ For additional information, see Will Fischer (October 11, 2006) "Public Housing Squeezed between Higher Utility Cost and Stagnant Funding: Low-Income Families will Bear Brunt of Shortfalls" *Center on Budget and Policy Priorities*.
- ²⁵ In the "Operating Fund Annual Report" (2007), Financial Management Division, Real Estate Assessment Center, Office of Public and Indian, HUD, data indicates that outside of New York City, utilities account for 23% of operating expense and cost \$88 per unit per month, with monthly operating expenses totaling \$380 per unit. Available at <http://www.hud.gov/offices/pih/programs/ph/am/of/opfund07rpt.pdf>
- ²⁶ Consumer Price Index, Bureau of Labor Statistics
- ²⁷ Under a 2004 HUD rule, HAs are now required by HUD to convert to an asset management system for managing public housing, as opposed to an agency-based management system. This change is set to be phased in over different time periods depending on the HA. Many HAs report that this shift is administratively burdensome and costly. See <http://www.hud.gov/offices/pih/programs/ph/am/overview.cfm> for more information about asset management.
- ²⁸ *Econsult Corporation*, "Assessing the Economic Benefits of Public Housing: Final Report" submitted to the Council of Large Public Housing Authorities, (January 2007).
- ²⁹ In Minnesota, public housing properties are eligible for local property tax exemption and the Payment In Lieu of Taxes (PILOT) program, which serves as an indirect local subsidy.

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- ³⁰ Atlas, John and Peter Dreier (September/October 1994) "Public Housing: What Went Wrong?" *Shelterforce Online*, National Housing Institute, <http://www.nhi.org/online/issues/77/pubhsg.html>. (Accessed December 14, 2007);
- ³¹ Stoloff, J.A. (August 14, 2004) "A Brief History of Public Housing" Paper presented at the annual meeting of the American Sociological Association, San Francisco, CA.
- ³² Orlebeke, Charles J. (2000) "The Evolution of Low-Income Housing Policy, 1949 to 1999" *Housing Policy Debate*, Vol. 11, Iss. 2: 489-520; Stoloff (2004)
- ³³ von Hoffman, Alexander (1996) "High Ambitions: The Past and Future of American Low-Income Housing Policy" *Housing Policy Debate*, Vol. 7, Iss. 3: 423-46.
- ³⁴ von Hoffman (1996)
- ³⁵ Stoloff (2004); von Hoffman (1996)
- ³⁶ Stegman (2002)
- ³⁷ Atlas and Dreier (1994)
- ³⁸ von Hoffman (1996)
- ³⁹ Stoloff (2004); von Hoffman (1996)
- ⁴⁰ von Hoffman (1996)
- ⁴¹ Stoloff (2004)
- ⁴² Stegman (2002)
- ⁴³ Stoloff (2004) citing *Council of Large Public Housing Authorities (CLPHA)* (1993) "Basic Facts about Public Housing"
- ⁴⁴ von Hoffman (1996)
- ⁴⁵ Stoloff (2004)
- ⁴⁶ See Section (j)(2) of the Public Housing Reform Act for the complete definition of severely distressed public housing.
- ⁴⁷ Stegman (2002)
- ⁴⁸ Stegman (2002)
- ⁴⁹ American Community Survey, 2006, US Census Bureau.
- ⁵⁰ American Community Survey, 2001-2006, US Census Bureau.
- ⁵¹ The reason for the discrepancy between the number of HAs reporting minimum and maximum waiting times is that some HA reported a range of 3 months to "unknown" months.
- ⁵² Out of the 78 surveys with responses to this question, a total of 86 "most serious needs" were listed. Seventy-one respondents listed one most serious need, six listed two most serious needs, and one listed three most serious needs.
- ⁵³ The five-year comparison data has some methodological limitations. It is retrospective rather than longitudinal in nature, and memory of past conditions by respondents may not always be accurate. Some HAs may have reported improved ability to administer public housing even when this is not true, due to a desire to mask problems at their agency. Others may have reported a diminished ability to administer public housing when this is not true in order to highlight need, because of low morale, or other reasons. Still other administrators may be new to their current HA within the five year time period. Despite these limitations, the data still offer a valuable perspective.
- ⁵⁴ Fischer (2006)
- ⁵⁵ Assessing changes in utilities is complicated by the fact that utilities are paid in different ways depending on the HA and the property. Altogether, the combined rent and estimated utility costs paid by residents cannot exceed 30% of the residents' income, and HAs may utilize a number of different systems for covering utilities expenses. In some cases utilities are included in the rent, and the HAs pay the utilities companies directly. In other cases, tenants pay their utilities directly to the utility companies, but are permitted a monthly "utility allowance" which manifests as a reduction in rent up to the full amount of the allowance. In some cases, the HA pays the utilities but "check meters" are used and a surcharge is levied by the HA when a household exceeds a threshold amount of energy usage deemed reasonable by the HA. Finally, special utility surcharges are levied by HAs for residents choosing to use specific appliances considered optional, such as freezers or air conditioning units, and this amount need not be applied to the 30% income limit. For additional information on utility payments in public housing, see the HUD website <http://www.hud.gov/offices/pih/programs/ph/phecc/allowances.cfm>.
- ⁵⁶ Due to lack of clarity in the survey question about supportive services, it was difficult to distinguish between HAs indicating that they offer supportive services, and HAs indicating changes in supportive services. Thus, only narrative data could be used for this question.
- ⁵⁷ Fischer (2006)
- ⁵⁸ "Ending Long-Term Homelessness in Minnesota: Report and Business Plan of the Working Group on Long-Term Homelessness" (March, 2004). Prepared for the Minnesota Legislature.
- ⁵⁹ The *Econsult* (2007) report estimated a per-unit replacement value (excluding land costs) for the nation at \$120,833 and the amount that a private investor would pay to own and operate the units at \$85,273 per unit. Insured value was not used in this report.
- ⁶⁰ *Econsult* (2007)