

## Public Housing Capital Fund

### Background

Public housing provides affordable rental housing to low-income families, seniors, and persons with disabilities. At last estimate, there were nearly 1.2 million public housing units nationwide—there are public housing units in every state and metropolitan area—housing approximately 2.6 million people. Similar to other forms of federally assisted housing, the public housing program limits the rents paid by tenants so that people with low incomes are able to afford a decent place to live.

Of course, the limited rental income generated by public housing properties does not meet the operating and capital costs of public housing properties, and thus Congress appropriates funds to meet these costs. The Capital Fund is the only dedicated source of annual funding available to make capital improvements—repairs and replacements beyond ordinary maintenance—to public housing. Each year, housing authorities nationwide receive a proportional share of the annual Capital Fund appropriation based on the ongoing accrual needs and the backlog of capital needs at each property. (The capital needs backlog represents the repairs and replacements that are necessary to bring building systems into working order, and the ongoing accrual needs are the repairs and replacements necessary to keep building systems in working order.)

A 2010 study of the existing public housing capital needs by Abt Associates found that there is a \$26 billion backlog, or an average need of nearly \$23,365 per unit. This capital needs backlog includes costs for bringing systems into working order, lead paint abatement, accommodations for persons with disabilities, and energy and water efficiency improvements. The same study estimated that new capital needs accrue at a rate of about \$3.4 billion annually, or \$3,155 per unit.

### Issue

For the first thirty years of the public housing program, there was no funding mechanism to support the capital needs of public housing, which lead many public housing properties to have mounting capital needs. When the Capital Fund was first established, it provided sufficient funds for the full amount of public housing's accrual needs and some portion of the capital needs backlog. However, in recent years, the Capital Fund appropriation has dwindled, and the amount appropriated no longer contributes to the reduction of the capital needs backlog. As a result, our nation loses 10,000 to 15,000 units each year from our public housing stock. With the replacement cost of a public housing unit estimated at approximately \$135,000, it does not make good economic sense to let units fall into a state of disrepair.

Although it can seem daunting, the \$26 billion capital needs backlog has decreased by at least \$6.5 billion, or 21 percent, since around the time that the Capital Fund was established. The decrease of \$1.2 billion in capital needs related to lead paint abatement is a significant

accomplishment in making affordable and healthy housing available to low-income families. Congress now has the opportunity to further improve the healthfulness of public housing units while also reducing federal expenditures through the greening of public housing. At least 20 percent of the costs included in the capital needs backlog would enhance energy and water efficiency, and thus these improvements would pay for themselves in fewer than 12 years. More so, the opportunity to reduce federal expenditures in terms of utility costs is significant: the Rocky Mountain Institute estimates that, on average, buildings within the public housing stock could be made 30 to 50 percent more efficient.

In addition, capital investment in public housing increases economic activity and creates jobs. The construction of public housing in the 1930s and 1940s was intended by Congress both to create badly needed housing and to create badly needed jobs. Today, economic impact studies have shown that for every dollar invested in public housing there is two to three dollars of economic activity, which is a rate of return surpassing most other sectors. The last significant investment in the public housing stock—the \$4 billion in stimulus funds appropriated for public housing capital needs—generated more than 31,000 jobs. Providing funding for public housing capital investment during a slow economy is a proven way to create jobs.

### Recommendations and Rationale

CLPHA recommends a funding policy that protects an invaluable affordable housing asset, which our nation can ill afford to lose, and that will decrease federal expenditures over the long run:

- ***Fully fund the accrual needs of the public housing stock.*** Fully funding the accrual needs prevents the capital needs backlog from growing and helps to ensure that public housing units are decent, safe, and sanitary as required by the Housing Act of 1937. Not funding the accrual needs of the public housing stock jeopardizes the ability of housing authorities to maintain properties and units, which in turn jeopardizes the health and safety of public housing residents.
- ***Fund a portion of the capital needs backlog each year with the goal of curing the capital backlog over ten years.*** The Housing Commission of the Bipartisan Policy Center recommended increasing the Capital Fund appropriation by \$4 billion more than the current funding level in order to cure the capital needs backlog in ten years. Curing the capital needs backlog will prevent the loss of units—10,000 to 15,000 units are currently lost each year—and will decrease utility and other operating costs over the long term.
- ***Expand opportunities for housing authorities to leverage private capital.*** The Rental Assistance Demonstration (RAD) allows housing authorities to leverage private capital through proven financing tools, but many housing authorities cannot access private capital without incremental funding. If Congress provided incremental funding to close the gap between public housing subsidies and Section 8 Fair Market Rent (FMR) levels, housing authorities would be able to leverage billions of dollars in private capital. A small amount of incremental funding will allow for billions of dollars of the capital needs backlog to be cured without direct Capital Fund appropriations.