



## New Research Highlights Unintended Consequences of Cuts in Capital Funding to Public Housing Authorities

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**-- Every Dollar "Saved" By Long-term Cuts Is Offset By New Costs and Incurs 30 Cents in Additional Costs --**

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CHESHIRE, Conn.--([EON: Enhanced Online News](#))--Families seeking affordable housing across the U.S., as well as the communities in which they live, will face negative financial impacts if cuts to Capital Fund Program Grants are enacted by the U.S. Department of Housing and Urban Development (HUD) and Congress. A recent study, *The Cost of Cuts: The Impact of Reductions in Capital Investment to Public Housing Authorities*, looked at the net implication of a 20% cut, on both a long-term/permanent and one-time/temporary basis, to the nation's capital funding of public housing authorities (PHAs), which provide affordable housing to moderate- and low-income families, elderly, and disabled households. The study, a collaboration between the Public and Affordable Housing Research Corporation (PAHRC) and Econsult Corporation, based the 20% funding cuts on actual reductions experienced by PHAs between 2000 and 2010. A long-term cut, totaling \$6.7 billion, will result in a *likely negative impact* of \$8.74 billion with a *minimum negative impact* of \$4.76 billion. A one-time 20% cut would equal \$470 million and will have a *likely negative impact* of \$471 million with a \$214 million *minimum negative impact*. The estimated cuts will inhibit the modernization of existing units, maintenance, energy/green improvements, and development/financing of new units.

Housing authorities serve over 2.1 million people and exist in every state in the U.S. As of 2010, the reference year for the study's data, PHAs operated 1.16 million housing units and received a combined \$2.39 billion in capital funding from HUD. Ten years earlier, in 2000, PHAs operated 1.28 million housing units with \$2.89 billion in capital funding. HUD's Capital Fund Program provides money for the maintenance of and updates to the physical infrastructure of public housing properties as well as the equipment necessary to maintain these investments. Some capital funds also cover resident activities, support programs, and administrative infrastructure improvements, such as technological updates and training. In general, no money from Capital Fund Program Grants supports administrative salaries, with the exception of salaries of resident program coordinators in some cases.

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"According to our analysis, over the long term, capital funding cuts to PHAs will eventually end up costing the government more than they save in the short term," says Brian Braley, Chief Operating Officer of PAHRC, which co-authored the study. "Housing authorities are already operating incredibly tight budgets which have

decreased per unit over time, so there is no 'budget fat' left to cut. Given the ongoing budget negotiations and potential sequestration, cuts by Congress and HUD are a very real possibility, which will directly impact U.S. communities – residents will see their standard of living decrease, neighboring communities will face a strain to their physical and social services, and governments will be left with a decrepit and crumbling infrastructure that will become an even bigger financial burden at a time when they can least afford it.”

### **Funding Cuts Mean Increased Homelessness**

PHA executives surveyed for the report said that the biggest casualty of funding cuts will be the modernization of existing units; a 20% temporary reduction in capital funding will result in a 55% drop in budget to update older units. This reduction, as well as a slow-down in the construction of new units, will result in the eventual loss of 231,000 units available for families living in public housing if made permanent; a consequence both of the loss of newly constructed units, and many units lost to depreciation. PHAs currently have \$20 to \$30 billion in deferred maintenance projects that are needed to repair and modernize units that are on the brink of becoming unlivable; without capital funding, these units will be removed from the public housing stock. Should capital funds be cut for just one year, the reduction in number of units lost would still reach almost 6,000.

“Capital funding cuts to PHAs will greatly reduce the number of units available to low-income earners, effectively increasing the need for other social services such as homeless shelters and food assistance. This comes at a time when these services are needed more than ever; according to the U.S. Census, 46.2 million Americans are currently living in poverty, the largest number in 52 years,” notes Michelle Gramley Kauk, Director of PAHRC. “The impact of these cuts could be catastrophic for American families.”

The reduction in units will mean that some families will either be forced to pay more for the same level of housing, pay the same for a lower level of housing, or become homeless. According to the research, 10% to 20% of PHA residents will become permanently homeless if units are not available for them. Assuming a 20% long-term cut, conservative estimates of providing homeless shelter space for these affected families and individuals will cost the government and non-profits between \$30 million to \$415 million a year. Should the cuts be in place for just one year, the costs incurred by homeless shelters would range from \$1 million to \$11 million per year.

### **Impact on Neighboring Communities**

Disinvestments in the local public housing stock can negatively impact the surrounding area by creating an environment that is more susceptible to crime. This can result from reduced security and the decreased physical condition of properties. Neighborhood blight and ensuing crime make communities less appealing, thereby lowering property values, and forcing residents and businesses to move elsewhere. A 20% permanent cut in capital funding will result in an aggregate \$2.5 billion to \$2.8 billion decline in property values for surrounding neighborhoods. The present value of decreased property values as a result of a one-time cut would likely equal roughly \$70 million.

This decline in property values from long-term cuts results in roughly \$28 million to \$40 million per year in lost property tax revenues to municipalities and school districts. Cuts lasting just one year would mean \$700,000 to \$1 million in lost tax revenue. At the same time, cuts eliminate the potential positive impacts that PHA capital projects can have on communities. A previous Econsult Corporation study showed that PHA capital projects are local economic impact generators – for every dollar invested into PHA capital projects, \$2.12 flows into the local economy and \$3.12 flows into the national economy.

"Econsult was proud to partner with the Public and Affordable Housing Research Corporation on this research, as it brings together our economic knowledge and their expertise in the housing market," says Dick Voith, Senior Vice President/Principal of Econsult Corporation and co-author of the study. "This groundbreaking study brings the cost-effectiveness of public housing into bold relief and gives voice to the worries of PHA executives, residents, and neighboring communities."

To download the full study, please visit [here](#). Additionally, PAHRC provides two infographics outlining the research findings, [Public Housing in the U.S.: The Cost of Cuts](#) and [The Need for Public Housing Across the U.S.](#)

## Methodology

The study uses a cost benefit framework to estimate the amount that negative impacts resulting from a reduction in capital funding will subtract from any intended savings. Using a survey of executives from all PHAs receiving grants from HUD's Capital Fund Program, it first establishes which budget items would be reduced and by how much in light of a 20% cut in Capital Fund Program Grants, which fund the agency's primary infrastructure maintenance and improvement efforts. There is no reliable historical data on what is reduced when these funds are cut. The resulting percent reduction in each of these budget silos is then mapped onto a 20% cut in actual capital spending totals in 2010 (a year when the Capital Fund was thought to be fully funded as opposed to often being prorated). The study next identifies a wide scope of negative impacts on stakeholders that would result from such a disinvestment in the public housing infrastructure. Using a variety of primary and secondary empirical analyses and data sources, the cost of each of these impacts is estimated, totaled, and finally subtracted from the total amount to be cut at the 20% level to arrive at the net cost or savings of the total cut.

## About Econsult Corporation

Founded over thirty years ago, Econsult Corporation provides its clients with rigorous economic analysis in support of public policy, economic development, litigation and consulting matters. It combines state-of-the-art analytic methods with extensive professional experience in consulting, academia and government. In August 2010, Econsult joined with Fairmount Capital Advisors, Inc., in creating The Econsult/Fairmount Group. This new venture offers their clients a comprehensive array of economic consulting and financial advisory services. Fairmount Capital Advisors is an independent advisory firm founded in 1987 that assists governmental, public and private organizations with financial planning and transaction management services for taxable and tax-exempt debt. For more information, visit <http://www.econsult.com/>.

## About the Public and Affordable Housing Research Corporation (PAHRC)

Incorporated in 2011, PAHRC conducts independent research to support the efforts of the public and affordable housing industry and its stakeholders. PAHRC also engages in collaborative research with a number of industry group partners to inform current knowledge about important public and affordable housing questions. In addition to research, PAHRC compiles data relevant to affordable housing issues from a wide variety of primary and secondary sources and makes these data available to affordable housing industry members as well as the general public. For more information, visit <http://www.pahrc.org/>.

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