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Utility Allowances Provided to Public Housing
and Section 8 Households and Resulting Rent
Burdens

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Development
Committee on Banking, Finance and Urban Affairs
House of Representatives

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public housing households and 70 percent of the section 8 households paid more than 30 percent. Overall, annual rent burdens averaged 30.5 and 36.0 percent of adjusted monthly income for public housing and section 8 households, respectively. I should note that since we reviewed only six PHAs, our results should not be taken to represent the rent burdens of the entire assisted housing population.

The current methods for administering utility allowances makes it likely that many households will have rent burdens other than 30 percent. Some of this is due to the imprecision inherent in setting the allowances and the rest are due to other factors, such as unseasonable weather.

Several options exist for changing how allowances can be provided. However, each has trade-offs in terms of treating households fairly, the ability of PHAs to carry them out, and federal subsidy costs. None seem to present a clearly preferred alternative.

Now I would like to discuss some of our findings on who receives allowances and their resulting rent burdens before I discuss options that might be considered in order to improve the utility allowance system.

BACKGROUND

About 3 million low-income households receive rental assistance through public housing and section 8 certificate programs administered by the Department of Housing and Urban Development (HUD). For the most part, PHAs operate some units (public housing) and contract with private owners to provide other units (section 8 housing).

Federal housing law requires households in public housing and those receiving section 8 certificates to pay a fixed percentage of their monthly income for rent, usually 30 percent of adjusted income.³ HUD has interpreted "rent" to mean shelter cost plus a reasonable amount for utility expenses. Some assisted households have all utilities paid by either the PHA or the landlord and therefore pay a straight 30 percent of adjusted income for rent.

However, when a household pays its own utility expenses to utility companies, the PHA provides the household with a utility allowance to cover what it has determined as a reasonable amount of utility consumption. The allowance is in the form of reduced rent payments. If everything works as expected, the household's utility bills will equal the allowance amount. That is, the utility expenses plus the reduced rent payment will total 30 percent of adjusted income. In theory, then, a household that pays its own utilities will have the same rent burden as a household that has all its utilities paid by the PHA or private landlord.

Allowances range from \$10 to over \$200 per month, depending on the expected cost of the utilities. If the allowances are below the actual cost of utilities to the tenant, the household's rent burden will be higher than the statutory amount. As a result, households will have to pay out-of-pocket to cover the shortfall. If the allowances are above the actual cost of utilities, the reverse is true and the federal subsidies are higher than intended.

³More strictly, households must pay the highest of: (1) 10 percent of gross monthly income, (2) 30 percent of adjusted monthly income, or (3) an amount established by local welfare agencies based on their determination of rental costs. "Adjustments," or reductions to gross income for calculating rent, include certain dollar amounts for each dependent, medical and child care expenses, as well as reductions if the head of household is elderly and/or handicapped.

While the utility allowance concept is relatively straightforward, implementation is much more difficult. PHAs administer anywhere from a few to tens of thousands of units, which are different in size and energy-usage characteristics (e.g., exposure to weather, insulation, exterior construction, and kind and energy efficiency of appliances installed). HUD guidance does not require PHAs to tailor allowances to each individual unit because it would be impractical to do so. Rather, allowances reflect overall expected utility consumption for (1) use (cooking, heating, appliance use, and, sometimes, cooling), (2) number of bedrooms (as a proxy for unit size), and (3) structure type (e.g., garden apartment or high-rise).

WHO RECEIVES ALLOWANCES AND THE AMOUNTS RECEIVED

Generally, only anecdotal information has been available on the extent to which utility allowances are provided to assisted households and their total rent burdens. HUD does not collect this kind of information, nor does it require PHAs to collect or report it. We hope to shed some light on these topics from our (1) nationwide survey of utility allowance practices and (2) detailed review of over 1,900 statistically sampled households at six PHAs. The sampling procedure allowed us to estimate the rent burdens for about 9,500 households at these PHAs. (See attachment I.)

We sent 1,594 questionnaires to a sample of PHAs identified by HUD as administering public housing and section 8 certificate programs. The purpose was to provide a nationwide estimate of PHA utility allowance practices.⁴ We received an 83-percent response rate, which allowed us to project our results to 2,610 of 3,217

⁴Some PHAs administer section 8 subprograms in which an entity other than the PHA sets allowance amounts. We excluded these subprograms from our review since our focus was on PHA practices. Section 8 vouchers are also excluded.

PHAs administering public housing programs and 1,717 of 2,205 PHAs administering section 8 programs (see attachment II).

In brief, on the basis of our nationwide survey, 81 percent of the PHAs administering public housing units responded that some or all of their units received utility allowances. Further, 95 percent of the PHAs administering section 8 certificate units indicated that some or all of their units received allowances.

Our work at six PHAs showed that the average monthly allowance amounts were \$52 for public housing households and \$64 for section 8 households and monthly adjusted income averaged in the \$400-\$450 range. These numbers certainly suggest that allowances are important to many assisted households.

RENT BURDENS OBSERVED AT SIX PHAs

We gathered income and allowance information directly from PHA files and utility expense information from utility companies serving the households (see attachment II).⁵

Overall, annual rent burdens averaged 30.5 percent of adjusted income for public housing households. About 22 percent of these households paid less than 30 percent of their adjusted income for shelter and utilities. On the other hand, about 45 percent of the public housing households paid more than 30 percent. (See fig. I.1 in attachment I.)

For section 8 households, overall, the annual rent burdens averaged 36.0 percent of adjusted income. As shown in figure I.2 in attachment I, about 23 percent of these households paid less

⁵We did not obtain independent information, such as verifying income with employers, as it would have been too time consuming and costly.

than 30 percent of their adjusted income for shelter and utilities and about 70 percent paid more than 30 percent.

Rent Burden Differs Between Public Housing and Section 8 Units

Our work is not complete at this time and we have not determined why average rent burdens in the public housing units were lower than those in section 8 and why a much greater percentage of public housing households had rent burdens at 30 percent of adjusted income (33 percent versus 7 percent). However, one possible explanation for the differences may be in the underlying housing stock of the two programs. Public housing units are often clustered in a number of projects while section 8 units are typically more diverse, since they consist of private rental units scattered throughout an area. It is possible that the greater uniformity of the public housing units makes it easier to determine an allowance that will provide for reasonable consumption. However, it is also possible that other reasons caused the rent burden to differ from the 30-percent standard.

Why Rent Burdens Differ From the 30-Percent Standard

Several reasons exist for rent burdens to differ from the statutory amount and some caution is required before concluding that utility allowances were inadequate for many and overgenerous for others. Significant variations between the legislated rent burden and what we observed also may have occurred because of the following:

- Allowances are generalized estimates that do not reflect energy consumption differences based on variations in quality of construction, energy use characteristics of appliances, number of persons in the unit, or whether the

unit has a sheltered southern exposure or an exposed northern exposure.

- Some households may be more energy-conscious than assumed when the allowance was established and some households may be less energy-conscious.
- Households may use major appliances whose use was not considered necessary when the allowance was derived, such as food freezers or air conditioners.
- Variations in normal weather temperature patterns can affect heating and air conditioning costs.⁶
- The way in which units are metered (individually or checked) and consumption is measured against allowances can affect the overall rent burden.

Individually-Metered And Check-Metered Utilities

Regarding this last point, for units individually-metered by the utility company, the household pays the utility company directly for utility consumption. The household receives a certain dollar allowance per month. If the allowance is less than the utility bill, the household must pay the difference. On the other hand, if the utility expense for the period is less than the allowance, the household keeps the difference.

Check-metered allowances are treated somewhat differently. For a check-metered utility, the utility company measures consumption for utility use for the whole building and bills the

⁶For the Mar. 1988 through Feb. 1989 period of our review, temperatures were warmer than average both in winter and in summer at each of the six locations.

PHA directly. The utility company does not allocate consumption to individual units. The PHA, however, measures consumption of individual units by using "check meters." In these cases, households are provided an allocation expressed in terms of energy units (e.g., kilowatt hours of electricity consumed).

In the case of check-metered utilities, if the household consumes more than the allocation, it must pay the PHA for the excess. However, if it consumes less than the allocation, it is typically treated as if it consumed exactly the allocation amount. In this situation, the household faces an up-side risk, but no compensating down-side benefit. Consequently, for check-metered utilities, rent burden is never less than 30 percent of adjusted income but could be more. As a result, two otherwise identical households could incur different rent burdens because one was individually-metered and the other was check-metered.

OBSERVATIONS ON USING ACTUAL DATA IN DERIVING UTILITY ALLOWANCES

I would now like to turn to the question of the data that could be used in establishing allowance amounts. This is an important question because data availability could drive decisions on the allowance standards.

An approach that was considered in past congressional deliberations is to use actual utility consumption data in setting allowances. However, it has some pitfalls. For example, many housing agencies may not be able to dedicate sufficient staff time to perform this very time-consuming process. I should mention that we took considerable time and effort to gather utility consumption information, and it is not a task that is lightly undertaken. It was a major undertaking to build a data base because family composition, income, and other factors that affect allowances change throughout the year. PHAs would also have to collect and maintain this information. Also, once the information

is received, it must be verified and analyzed. We spent considerable time trying to obtain "clean" data that we could report on. We found many instances of missing and inconsistent data.

Aside from actual consumption data, respondents to our questionnaire told us they used a variety of other methods to gather the data necessary to make utility allowance determinations. These included the use of (1) formal engineering studies of utility consumption, (2) utility company data for the community as a whole, and (3) amounts provided by HUD area offices. The method of data collection is influenced by staff availability, cost, accessibility of the data, and other factors. Requiring one source of data over another could be, in our opinion, counterproductive.

OBSERVATIONS ON REDEFINING THE STANDARD FOR EXCESS CONSUMPTION

Another important topic is the standard under which a household is deemed to have consumed either a reasonable amount of utilities or too much. HUD's policy is that public housing households should have allowances large enough to satisfy the reasonable needs of an energy-conserving family of modest means. In contrast, HUD requires that section 8 households be provided allowances that reflect average consumption for the community as a whole. However, average means that about half of the households will have expenses greater than their allowances even though many may not be less energy conscious.

Setting a standard for energy consumption is difficult. At this time, no one standard seems to provide clear-cut advantages to tenants, PHAs, and HUD. Let me briefly discuss several options that we have considered.

One option is to do away with allowances and have all households' utility bills paid by the PHA. This is attractive in

that it ensures that all households pay exactly 30 percent of their adjusted income for rent. However, to the extent that this arrangement lacks incentives for energy conservation, PHAs, and ultimately the federal government, end up paying more in rent subsidy payments.

A second option is to set the standard so that some high percentage of households would be expected to have utility bills within the standard. This alternative produces lower costs to PHAs and the government than the first option because only a small percentage of the tenants pay for excess consumption. Also, because tenants would have some price signals to respond to, there may be some incentive for them to reduce utility consumption. However, this option still might result in higher than desired federal subsidy costs if households perceive that they have little chance of paying for wasteful utility consumption.

A third option is to set the allowance at some central level such as the mean or median consumption. This approach sounds attractive because average often connotes "typical." However, a central measure will likely penalize some households who are energy-conscious. Also, as our results at six PHAs showed, the curves are not "bell-shaped," which suggests that a decision rule such as "average" or "median" may be too simplistic. However, the use of central tendency measures are more likely to send energy conservation signals to households and result in lower subsidy costs than the first two options.

REVIEWING THE ADEQUACY OF ESTABLISHED ALLOWANCES

Regardless of the data used or the standard applied, periodic monitoring must be performed. HUD requires housing agencies to review utility allowances annually and update them if required. Almost one-third of the PHAs in our nationwide survey indicated that they had not reviewed public housing allowances in over 1

year. Further, about 40 percent of the PHAs indicated they had not reviewed section 8 allowances in the past year. All of the PHAs we visited told us that they had reviewed their allowances in the last two years, although they could not always supply documentation. However, these reviews often amounted to little more than ensuring that utility rates had not increased or decreased. Generally, the PHAs did not revalidate the underlying data and assumptions used in deriving the allowances.

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In conclusion, each option that I have discussed has trade-offs in terms of (1) the proportion of households that could be expected to pay 30 percent of their income for rent and utilities, (2) the feasibility and cost of data collection and analysis, and (3) the subsidy costs paid by the federal government. At this point, none appears to offer a clearly preferable choice.

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Mr. Chairman, this concludes my prepared statement. I welcome the opportunity to answer any questions that you or Members of the Subcommittee may have.

RENT BURDENS AND ALLOWANCE AMOUNTS AT SIX PHAs

Figures I.1 and I.2 present the rent burden distributions for households in public housing and section 8 housing, respectively, of the six PHAs in our review. Sampling errors associated with these estimates will be included in our final reports.

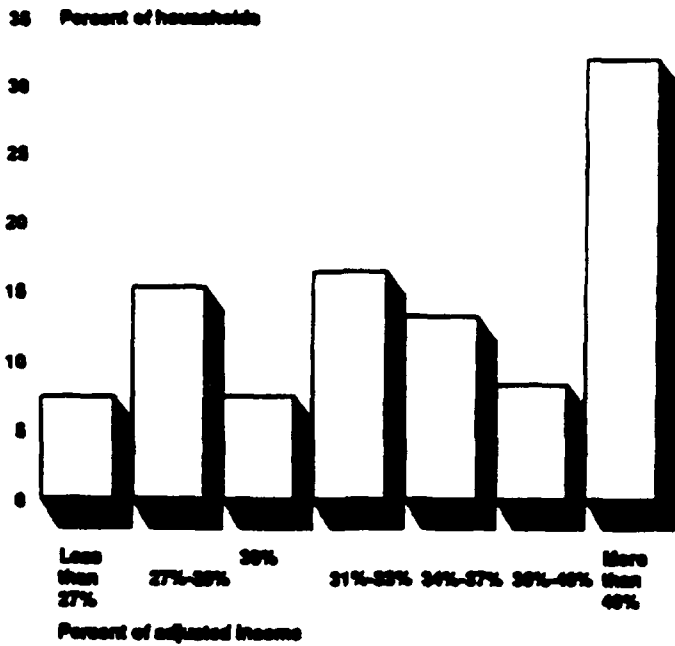
Figure I.1: Rent Burden Distribution of Public Housing Households at Six PHAs



Note: Distribution based on an estimated 4,471 households receiving allowances.

Four categories are displayed in figure I.1. If we had expanded the number of categories, then we may have understated the sampling errors of these additional categories. This is because we did not observe any occurrences in one or more sampled locations for the additional categories that we would have created.

Figure I.2: Rent Burden Distribution of Section 8 Households at Six PHAs

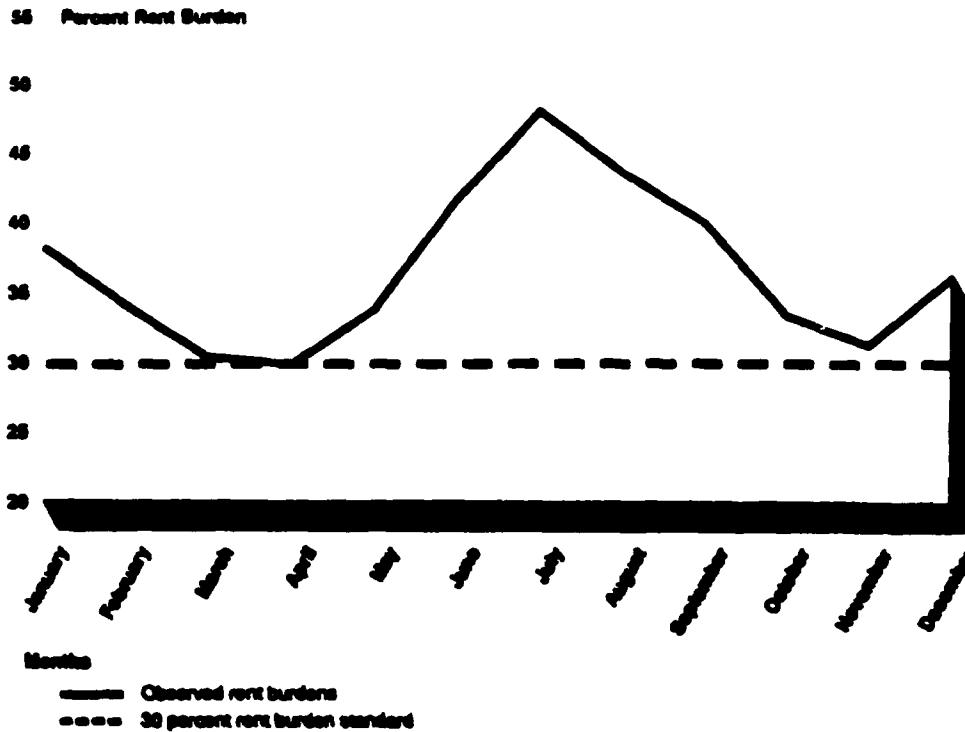


Note: Distribution based on an estimated 5,015 households receiving allowances.

Figures I.3 and I.4 show the distribution of monthly differences in rent burdens for two PHA programs. We use these as illustrations, only, to show how households' monthly outlays may vary from the allowances provided.

Figure I.3 shows average monthly rent burdens for Chandler, Arizona, section 8 households. Overall, the allowances covered utility costs for heating, cooling, cooking, heating water, lights and appliances, water and sewer, trash pick-up, and/or tenant-supplied appliances. The larger rent burdens during the winter and summer months were due to the higher costs of heating and cooling during these months.

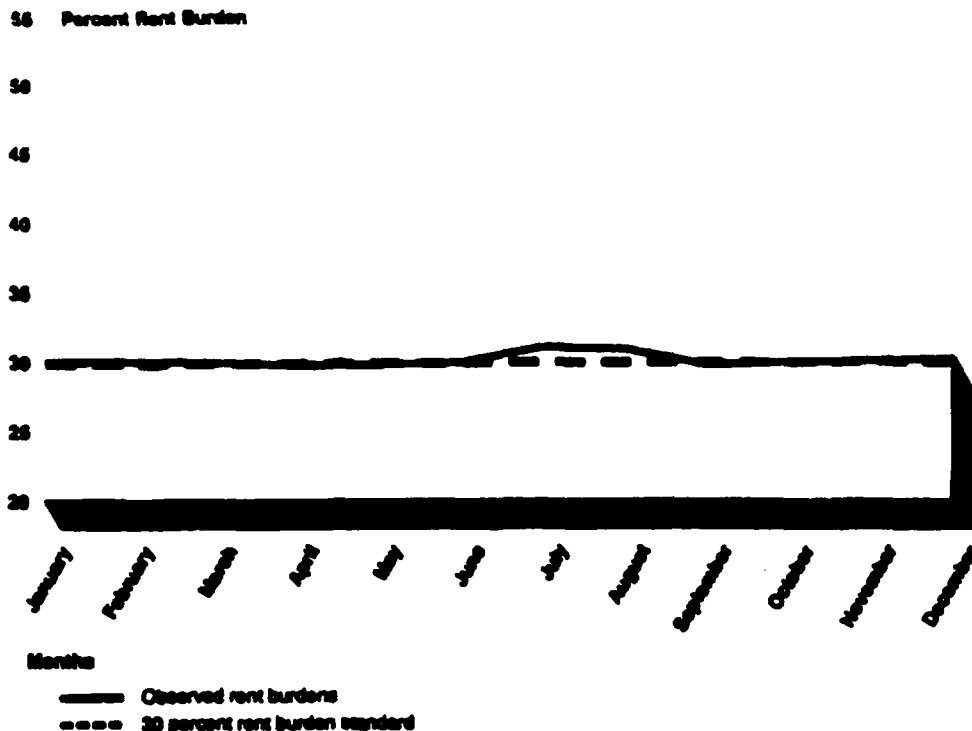
Figure I.3: Rent Burden Distribution for Section 8 Households at the Chandler PHA



Note: The average annual rent burden was 36.8 percent. We reviewed all usable cases at this location (144 households); therefore, no confidence levels were calculated.

Figure I.4 shows average monthly rent burdens for public housing households in East Detroit, Michigan. All units were one bedroom, single-occupant units for the elderly. They received an allowance for electric appliance use of about \$10 per month. Since the allowances were designed to cover the small costs of minimal utility usage, it would be expected that rent burdens would cluster around the 30-percent level for each month.

Figure I.4: Rent Burden Distribution for Public Housing Households at the East Detroit PHA



Note: The average annual rent burden was 30.0 percent. We reviewed all usable cases at this location (95 households); therefore, no confidence levels were calculated.

SUMMARY OF HOW GAO GATHERED QUESTIONNAIRE
AND RENT BURDEN INFORMATION

QUESTIONNAIRE METHODOLOGY

We consolidated three separate HUD data bases and supplemented missing information from records maintained by the National Association of Housing and Redevelopment Officials. The results of this effort consisted of 3,217 PHAs identified as administering public housing units and 2,205 PHAs identified as administering section 8 certificate units. Using 500 units as a cut-off, we divided the public housing data base into large and small PHAs. For section 8, we used 100 units as the dividing line since our pretests showed that larger PHAs were less likely to maintain detailed records on information that we requested. We drew stratified random samples based on these groupings.

We mailed 1,594 questionnaires in May 1989 and collected data from May until November 1989. For those agencies that did not respond, we sent a follow-up mailing and called larger PHAs to encourage responses. We examined all questionnaires for consistency and contacted agencies to resolve ambiguous response patterns. We received 1,277 usable responses and 44 responses from PHAs that did not administer either program (83 percent response rate).

All sample surveys are subject to sampling error. The sampling error is the maximum amount by which results obtained from a statistical sample can be expected to differ from the true universe characteristic (value) we are estimating. All sampling errors derived from the questionnaire estimates were calculated at the 95-percent confidence level. These sampling errors will be included in our final report.

RENT BURDEN CALCULATIONS

We collected 12 months of income and utility allowance information from PHA files at 6 PHAs for 1,907 public housing and section 8 households. We collected utility consumption information for these households from utility companies. We drew random samples that allowed us to make estimates for 4,471 public housing and 5,015 section 8 households that received allowances and met other criteria discussed below.⁷ The period covered by our work was generally March 1988 to February 1989.

Not all households that received allowances are included in our results. For example, some households had too much missing utility expense data to compute rent burdens with confidence. As a result, the households reported on here are those public housing and section 8 certificate households that

- occupied a single unit during the period and received utility allowances during that period;
- had no more than 3 months data missing for a data element, such as missing utility bills; and
- had their rents computed under the 30-percent rent burden standard for the entire year.

We performed extensive file verification of income calculations, allowance amounts, and rent calculations performed by the PHAs. Where errors occurred, we corrected them. We did not obtain independent information, such as verifying income with employers, since this would have been too time consuming and costly. All sampling errors derived from the rent burden results were calculated at the 93-percent confidence level.

⁷This represents about 75-percent usable data for samples that we drew for public housing and about 50-percent usable data for samples that we drew for section 8 households.