

**GAO**

Report to the Subcommittee on VA,  
HUD, and Independent Agencies,  
Committee on Appropriations,  
U.S. Senate

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# PUBLIC HOUSING

## HUD Has Several Opportunities to Promote Private Management



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**Resources, Community, and  
Economic Development Division**

B-281054

July 26, 1999

The Honorable Christopher S. Bond  
Chairman  
The Honorable Barbara A. Mikulski  
Ranking Minority Member  
Subcommittee on VA, HUD,  
and Independent Agencies  
Committee on Appropriations  
United States Senate

Americans want government that is more businesslike and better managed, according to the Third Report of the National Performance Review—government that can limit costs without reducing services. To meet this demand for economy and efficiency, federal, state, and local agencies are taking a growing interest in managing their assets as a business, including exploring private management as a means of maximizing their return on buildings and facilities. The nation's 1.3 million public housing units, which annually receive appropriations of nearly \$6 billion, including almost \$3 billion to subsidize the operating budgets of nearly 3,200 local public housing authorities, are a major asset worthy of such examination. To determine whether the resources provided to public housing authorities could be used more efficiently and effectively, you asked us to review the use of private contractors in the public housing industry. As agreed with your offices, this report answers the following questions:

- What is the basis for the Office of Management and Budget's (OMB) 1998 assertion that privatizing public housing management could save \$200 million annually and for housing practitioners' and experts' belief that adopting private management for public housing could lead to the more cost-effective use of public housing resources?
- To what extent have housing authorities adopted private management strategies, what experiences have they had in implementing these strategies, and what primary obstacles have they encountered in adopting private management?
- Are there opportunities for the Department of Housing and Urban Development (HUD) to encourage housing authorities to make more cost-effective use of their resources by considering private management as an alternative to in-house management?

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To address these objectives, we sent a mail survey to a sample of about 1,200 housing authorities that included all of the approximately 500 very large, large, and medium-sized authorities and a random sample of 700 of the small and very small authorities. (See app. I for detailed information on the results of our survey.) When the results of our survey are generalized to all public housing authorities, the sampling error is plus or minus 5 percent (see app. II.). We also met with public housing experts, private management companies, public housing residents, and officials of HUD and OMB to discuss private management efforts in public housing. To gain housing authorities' perspectives on the issues associated with privatizing the management of their housing, we visited authorities in Atlanta, Boston, Chicago, and Washington, D.C. (see app. III). We selected these cities because of their broad but varying experiences with private management.

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## Results in Brief

OMB does not have quantitative support for its assertion that allowing the private sector to bid on contracts for managing all 3,200 public housing authorities could save as much as \$200 million annually. However, OMB staff, private management firms, and several housing authorities told us they believe private management could achieve significant savings. In their view, minimizing costs is not a priority in the public housing management community, and introducing competition into the public housing industry should stimulate more efficient and therefore less costly operations and higher-quality services. Moreover, OMB staff believe that a more cost-effective use of public housing resources could be achieved by establishing measurable performance standards and by privatizing the management of housing developments or authorities that do not meet the standards.

Currently, most housing authorities employ contractors to provide at least some services or perform tasks such as grounds-keeping and maintenance. However, only about 18 percent of the very large and large and only a handful of the medium-sized, small, and very small housing authorities we surveyed have contracted with private property managers to operate entire developments. For the most part, according to these authorities, private management has increased rental revenues, operating efficiencies, and the quality of housing services. The housing authorities believe that private-sector property managers achieve these gains by (1) aggressively and effectively collecting rents and evicting problem residents, (2) focusing on keeping buildings and grounds attractive, and

(3) responding to residents' needs. Following the private managers' example, many in-house managers in housing authorities that have privatized developments have also improved their performance. Before implementing private management, housing authorities have had to overcome a number of obstacles, including their historical reliance on in-house management and on centralized—rather than project-based—budgeting and accounting systems, the possibility that contractors would displace their employees, and the fears of residents about changes in their quality of life under private management.

HUD has multiple opportunities to encourage the more cost-effective use of public housing resources through strategies such as private management. The gains in operating efficiency and service quality reported by housing authorities that have contracted with the private sector suggest that HUD could take advantage of opportunities to promote private management's potential as a public housing management option. Over the next few months, HUD will have occasions to encourage housing authorities to adopt cost-conscious operating strategies, including private management, as the Department develops regulations to implement public housing reform legislation enacted in 1998 and as it introduces its new public housing assessment system. In addition, HUD has begun to develop outcome and output indicators for its annual performance plan that would allow it to measure whether housing authorities are adopting cost-conscious management approaches. Taking advantage of these opportunities would complement other recent efforts by the Department to establish performance measures (e.g., a new public housing assessment system) and incentives (e.g., mandatory receivership for long-troubled housing authorities) for public housing authorities. In total, these activities would indicate to housing authorities that HUD considers the cost-effective use of resources a high priority and supports the authorities' adoption of new strategies, such as private management, to lower costs and improve quality.

In this report, we recommend that HUD take actions to ensure that the benefits of private management are adequately considered by housing authorities as they plan their operating strategies for using federal funds to provide housing services for low-income households.

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## Background

Under the Housing Act of 1937, as amended, the Congress created the federal public housing program to assist communities in providing decent, safe, and sanitary dwellings for low-income families. Today, about 3,200

public housing authorities own approximately 1.3 million units of public housing. Public housing authorities are typically municipal, county, or state agencies created under state law to develop and manage public housing units. Over 100,000 employees work for housing authorities that range in size from the very large (about 158,000 public housing units in New York City) to the very small (6 public housing units in Tioga, Texas). Table 1 shows the distribution of public housing authorities, units, operating funds, and capital funds by housing authority size.

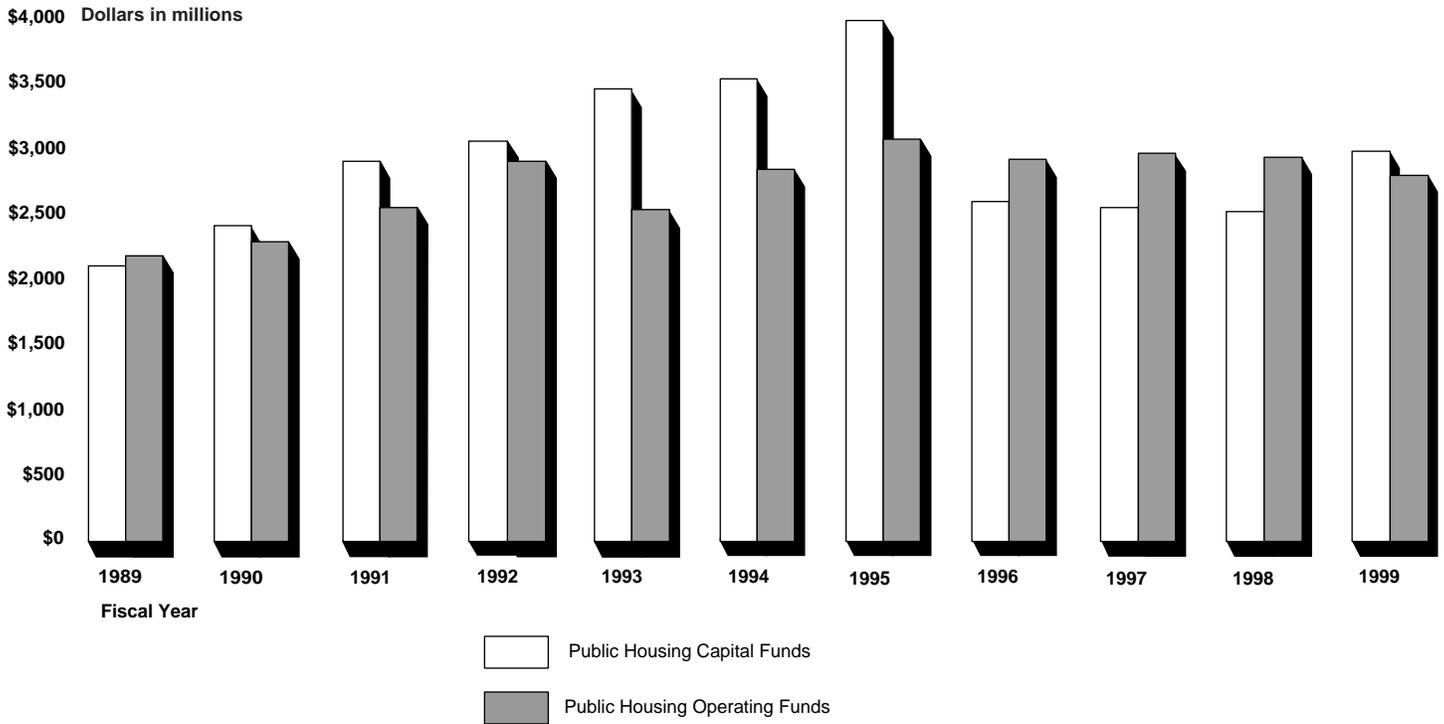
**Table 1: Characteristics of Public Housing Authorities, by Size**

Size of housing authority	Number of public housing authorities	Share of public housing units	Share of public housing operating funds	Share of public housing capital funds
Very large (more than 6,599 units)	16	31%	45%	41%
Large (1,250-6,599 units)	131	27%	28%	26%
Medium (500-1,249 units)	249	15%	12%	12%
Small (100-499 units)	1,276	22%	12%	16%
Very small (fewer than 100 units)	1,500	5%	2%	5%

Source: GAO's analysis of HUD's data.

Annually, the Congress appropriates funds to HUD to be allocated to public housing authorities for the operation, improvement, and upgrade of public housing communities. Most housing agencies receive operating subsidies to cover the shortfall between tenants' rents and operating expenses. These subsidies help housing authorities meet operating and maintenance expenses. HUD also provides capital funds in the form of modernization grants to housing authorities to improve the physical condition and to upgrade the management and operation of existing public housing developments. Figure 1 shows the federal funding from fiscal year 1989 through fiscal year 1999.

**Figure 1: Federal Funding for Public Housing**



Note: Funding is in constant 1999 dollars.

Source: HUD budget documents.

The Quality Housing and Work Responsibility Act of 1998 gives housing authorities “that perform well the maximum feasible authority, discretion, and control with appropriate accountability to public housing residents, localities, and the general public.” Moreover, one of the act’s purposes is to increase the accountability and reward the effective management of public housing agencies. To monitor the performance of public housing managers and hold them accountable for the funding they receive, HUD has two tools: (1) the authorities’ annual and 5-year plans and (2) the Department’s Public Housing Management Assessment Program (PHMAP). Under the act, all housing authorities must submit plans for addressing the housing needs of low-income households in their metropolitan area. In

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their plans, they must describe their financial resources and their planned uses of those resources. In addition, the authorities must specify how they will carry out asset management functions, including how they will plan for the long-term operating, capital investment, rehabilitation, modernization, disposition, and other needs of their public housing inventory. Once the plans are submitted to HUD, the Department is required to review them for compliance with the law. HUD published an interim rule in February 1999 that provides initial implementing guidance for housing authorities and will issue a final rule after considering public comments.

Under PHMAP, HUD uses a set of operational indicators to evaluate housing authorities' performance. HUD bases its performance scores for these indicators on a housing authority's ability to (1) perform modernization, maintenance, inspections, and other tasks to maintain the overall physical condition of buildings; (2) collect rents; (3) prepare vacated units for occupancy; and (4) work with residents to provide programs, opportunities, and safe, drug-free environments. HUD field offices depend on each public housing authority to submit and certify to the accuracy of about half the data that lead to the overall PHMAP score; the balance of the information HUD uses comes from its existing information system for tracking expenditures from major grants. HUD classifies housing authorities as troubled if they score below 60 out of 100 possible points. The Department is now required to impose receivership on housing authorities that are classified as troubled for 2 years. HUD has also designed and is now implementing a new performance assessment system—the Public Housing Assessment System. This system is broader than and subsumes PHMAP. Besides assessing management performance, the new system includes measures of physical condition, financial management, and residents' satisfaction.

In May 1997, HUD published a guidebook on privatizing public housing. According to the acting assistant secretary at the time, the guidebook, along with case studies presented as appendixes, is intended to help housing authority officials who have decided to consider private management for at least some of their developments. The guidebook was prepared under a HUD contract by a consulting firm that advises housing authorities interested in pursuing private management. The guidebook is available directly from HUD or can be downloaded from HUD's home page on the Internet.

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## Benefits of Competition Support the Belief That Public Housing Resources Could Be Used More Cost-Effectively

OMB staff told us that they had no quantitative basis for asserting in November 1997 that \$200 million could be saved annually if the private sector were allowed to bid on contracts for operating public housing. In its November 1997 passback<sup>1</sup> on HUD's fiscal year 1999 budget request, OMB proposed that the management of all housing authorities be opened up to bids from private management companies, nonprofit agencies, and other well-managed housing authorities. We recognize that the savings from private management would be difficult to quantify because most housing authorities have not developed the project-based budgeting and accounting systems needed to determine the true costs of operating individual housing developments. In addition, baseline data for individual projects would be needed before overall savings could be estimated. Nevertheless, as we have reported in the past, introducing competition into the management of government activities typically results in lower costs and higher-quality services. OMB and others continue to advocate the private sector's involvement in public housing. This view is not widespread, however, among public housing authorities—very few of the over 3,000 very small, small, and medium-sized authorities use private contractors to provide more than a few services.

Currently, most housing authorities have little incentive to change their views. Their income is relatively stable and certain, and the demand for their housing is high. They would derive little benefit from increasing their revenues because such increases generally lead to corresponding reductions in the subsidy payments they receive from HUD. To foster a more competitive and cost-sensitive environment within public housing, OMB staff, some housing authority officials, and several private-sector contractors believe that housing authorities could use private management to lower costs, increase revenues, and deliver services more efficiently. We have made similar observations in evaluating other federal programs. For example, in an October 1997 report on privatizing social services, we reported that

“Competition has long been held as a principle central to the efficient and effective working of businesses in a free-market economy. In a competitive market, multiple parties attempt to secure the business of a customer by offering the most favorable terms. Competition in relation to government activities can occur when private-sector entities compete among themselves or when public-sector entities compete with the private

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<sup>1</sup>Before HUD and other agencies send their budget requests to the Congress, OMB reviews the requests and provides the agencies with guidance and alternative recommended program funding levels. These comments are contained in internal negotiation documents called “passbacks.” Agencies are allowed to appeal the recommendations in their passback.

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sector to conduct government business. In either case, competition for government business attempts to bring the advantages of a competitive market economy—lower prices and higher-quality goods or services—to the public sector.”<sup>2</sup>

In OMB’s November 1998 passback on HUD’s fiscal year 2000 budget proposal, OMB staff questioned whether all housing authorities are using operating subsidies and capital grants cost-effectively. OMB staff stated that establishing measurable performance standards and incentives to meet such standards could enhance good management and cost-effectiveness in the use of public housing resources. In this passback, OMB staff noted that HUD’s relationship to housing authorities is contractual and should be contingent on performance. Moreover, to ensure that housing authorities were successful, HUD would need to measure their actual performance against its performance standards.

Furthermore, OMB staff characterized private management as one remedy that HUD could use for housing authorities whose performance fell short of the Department’s standards. In 1998, OMB suggested, as it did in 1997, that HUD invite bids from private management companies, nonprofit entities, and well-managed housing authorities to manage poorly performing authorities. The prospect of losing managerial control in this manner could give housing authorities an incentive to improve their performance.

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## Private Management Generally Has Benefited Housing Authorities That Have Overcome Obstacles to Implementation

Private management in public housing ranges from hiring contractors for individual services and functions to hiring them to manage entire developments or an entire housing agency. While most housing authorities contract for some individual services, such as pest control, landscaping, or applicants’ background checks, only a small percentage have contracted for the day-to-day management of their properties. Recently, however, more authorities have begun to explore private management as an option for their properties. The housing authorities that have adopted private management have generally reported operating efficiencies or higher-quality service. However, these authorities had to overcome obstacles before they could implement private management.

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<sup>2</sup>Social Service Privatization: Expansion Poses Challenges in Ensuring Accountability for Program Results (GAO/HEHS-98-6, Oct. 20, 1997).

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**Contracting for Individual Services and Functions Often Lowers Costs or Improves Service Delivery**

Housing authorities that are contracting for certain individual services or functions report that they often save money and improve service delivery. Seventy-six percent of housing authorities contract with a private company for at least one housing management function. Most frequently, housing authorities contract for pest control (61 percent), trash collection (53 percent), bookkeeping or accounting (53 percent), vehicle maintenance (27 percent), and landscaping/grounds-keeping (24 percent).

Seventy-nine percent of the housing authority managers we surveyed who have contracted for at least one housing management service or activity reported improved operations. Some cited lower costs, primarily for salaries and equipment. For instance, the Anne Arundel County Housing Authority in Maryland reported saving over \$100,000 per year by contracting for lawn care, vacant unit painting, and cleaning services for 1,026 units in eight developments. In addition, it avoided a capital cost of \$46,500 for lawn care equipment. However, some housing authorities reported that they performed the services themselves, achieving better results. For example, the Eutowah Area Consolidated Housing Authority in Georgia performs the vehicle maintenance and routine and preventive maintenance work for its 358 units in two neighboring towns. According to the Eutowah Area's executive director, he achieves more value and better quality by doing the work with in-house staff rather than contracting for the work.

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**Some Very Large, Large, and Very Small Housing Authorities Report Benefits From Using Private Management for Entire Housing Developments**

Our survey found that about 9 percent of all public housing units—over 100,000 units—are under private management. Although housing authorities of all sizes have privatized the management of individual housing developments to some extent, most of the privately managed units are owned by the very large and large (1,250 units or more) housing authorities. Typically, the goal of these authorities is to reduce the size of the housing portfolio they manage on a daily basis. At the other extreme, we found that some very small housing authorities (owning fewer than 100 units) are also hiring private managers, often to save money by combining their portfolio with those of other very small housing authorities. Despite their small size, these authorities say they must address many of the same management issues as the large authorities.

In general, the housing authorities that are using private firms to manage individual developments identified positive and significant results. For example, at all four of the housing authorities we visited—in Atlanta, Boston, Chicago, and Washington, D.C.—officials told us that private

management contributed to improvements, efficiencies, and savings. We found that private management helped to (1) improve the financial management and operating efficiency of public housing authorities, (2) improve customer service through the provision of more responsive property management functions, (3) introduce private-sector business practices into public housing management and make the benefits of the practices well-known, and (4) provide economies of scale that reduce costs and improve operating efficiency. However, we also found that savings are difficult to quantify because none of the housing authorities have fully developed property-based budgeting and accounting systems. Such property-based systems are needed if traditional housing authority managers are to become successful asset managers focused on cutting costs and developing strategies for adding revenues in their public housing real estate portfolios.

### Improved Financial Management and Operating Efficiency

Of the housing authorities that answered our questionnaire, 43 percent of those using private management believe that their overall financial management improved with private management. Forty percent reported no change. Fewer than 5 percent reported that their financial management became worse after private management was introduced. Over 60 percent reported lower vacancy rates, more timely rent collection, and stronger lease enforcement because of private management. Such improvements increased the authorities' PHMAP scores.

For example, Atlanta Housing Authority officials told us that their vacancy rate declined with private management. Atlanta Housing Authority officials also believe that the private managers were instrumental in improving the authority's financial management practices by facilitating the comparison of budgeted amounts with actual expenditures for each development. Atlanta did not have such a system before it introduced private management. In addition, housing authority officials in Washington, D.C., credit the private management companies with increasing rent collections, reducing unit turnover time, developing effective unit inspection programs, and increasing efficiency in other ways that helped the housing authority achieve a passing PHMAP score.

Small housing authorities have also benefited from private management. The housing authority of Konawa, Oklahoma, for example, contracted with a private company to handle the day-to-day management of its 38 public housing units. According to the chairman of the board of commissioners, private management saves the city about \$6,500 per year.

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**Improved Customer Service**

Private management companies have improved housing services to residents by providing fundamental property management functions. Of the housing authorities we surveyed that were using private management, 62 percent reported that the exterior appearance, or “curb appeal,” of their properties improved; 74 percent saw improvement in the day-to-day management of their developments; 65 percent said that private management companies improved day-to-day maintenance activities; and 59 percent believed that residents’ satisfaction increased.

Housing authority officials in Atlanta, Chicago, Boston, and Washington, D.C., agreed that private management companies excel at improving the curb appeal of public housing properties, which could help housing authorities attract more working families to public housing.<sup>3</sup> When private management companies take over properties, their first priorities usually include awarding landscaping contracts, putting up new signs, discouraging graffiti and trash dumping through daily cleanups, and repainting entrances and other public areas (see fig. 2).

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**Figure 2: Exterior Amenities and Landscaping, Chicago, Illinois**



Housing authority officials also agreed that private management companies typically do a good job of eliminating maintenance backorders and improving maintenance response times. For example, private management companies in Washington, D.C., told us that they eliminated backlogs of hundreds of work orders in their first few weeks under

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<sup>3</sup>Attracting more working families to public housing is a goal of the Quality Housing and Work Responsibility Act of 1998.

contract. In Boston, housing authority officials told us that private management companies can perform many simple maintenance repairs more efficiently and economically than their in-house maintenance staff. For example, they said that a private firm can often send one maintenance employee to perform a simple task, such as repair a broken pipe in a wall, while labor agreements require the housing authority to use a number of skilled tradespeople.

Individuals representing resident groups told us that tenants' quality of life improved under private management. For example, a private management company in Chicago built a laundry room for residents, eliminating a 10-block trip to the closest laundromat. A private management company in Washington, D.C., used operating budget savings to fund improvements such as new carpeting in the lobby, tables and chairs in the recreation room, and a new roof-top card room (see fig. 3).

Figure 3: New Roof-Top Card Room, Washington, D.C.



Private-Sector Business Practices

Contracting, whether for landscaping and grounds-keeping at a few properties or for managing a few entire housing developments, brings a degree of competition into a housing authority's regulated management

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environment. Officials at the four housing authorities we visited told us that they now see the benefits of competition with the private sector. For example, after noting the positive impact of improved curb appeal at their privately managed properties, Boston Housing Authority officials improved the curb appeal at properties managed in-house (See fig. 4). Boston officials also began inviting private managers to their management retreats to share management practices. The severely troubled Chicago Housing Authority was under HUD's management when it significantly expanded its private management portfolio in 1995. Chicago has an asset manager to oversee its privately managed portfolio and plans to give the private management companies more autonomy in managing properties in hopes that successful private-sector practices will influence the housing authority's management. In Washington, D.C., the receiver told us that that he no longer plans to place the housing authority's entire portfolio under private management because he believes that his in-house staff is adopting many private-sector management techniques.<sup>4</sup> He is satisfied with the current balance of 12 privately managed and 44 housing-authority-managed developments. The receiver plans to continue implementing private-sector practices, including a project-based budgeting system, a regionalized organizational structure, and a pay-for-performance plan. He believes that these practices will allow in-house managers to operate at a cost equal to or less than that of the private management companies that receive a management fee.

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<sup>4</sup>The District of Columbia Housing Authority has been under the management of a court receiver since May 1995.

Figure 4: Improved Curb Appeal at a Property Managed by the Boston Housing Authority



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**Cost-Effective Housing  
Portfolio Size**

Private management can help small authorities achieve economies of scale with reduced overhead, as well as help make large authorities' portfolios more manageable. In Northeast Texas, 13 housing authorities in three counties managing portfolios ranging in size from 6 to 104 units contracted with the Texoma Council of Governments to provide management services. The Council acts as the managing agent and provides all management services for the housing authorities. According to the Council's director, reducing the number of audits, accounting fees, insurance policies, and association memberships from 13 to 1 will save more than \$30,000 each year. Additional savings from reductions in staff time, postage, copies, and other administrative costs are expected.

Conversely, the Boston Housing Authority eased its large workload by contracting for the management of about one-quarter of its 44 housing developments for the elderly. Boston reduced the typical workload of its site managers to one to three developments, a level that is in line with private-sector practices. Previously, the site managers of Boston's housing developments for the elderly were responsible for four to seven developments and, according to housing authority officials, had time for collecting rents and providing basic maintenance but not for providing services and outreach to tenants.

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**Housing Authorities Have  
Overcome Obstacles to  
Implementing Private  
Management**

On the basis of our survey and our visits with housing authorities, we identified six obstacles to the effective use of private management companies: (1) difficulty in departing from the status quo; (2) a history of centralized operations, budgeting, and accounting; (3) inexperience in monitoring contractors' performance, (4) residents' fear of change; (5) concerns about the impact of a change in management on housing authority personnel; and (6) the disincentive to change created by high PHMAP scores. We also found that some housing authorities have overcome the obstacles and implemented effective private management programs.

**Difficulty in Departing From  
the Status Quo**

Most housing authorities told us that they are satisfied with how they have operated in the past, contracting for a few individual housing services, such as trash removal or pest control, but using in-house staff to manage individual housing developments. Fifty-seven percent of the housing authorities believe their properties would not benefit from private management. Forty-three percent believe that switching to private management would be more costly than managing with in-house personnel. The exceptions were typically the 2.2 percent of housing authority directors who have contracted with private firms to manage one

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or more public housing developments. These directors attributed management improvements and cost savings to the private-sector's management style and practices, not generally found in traditional public housing.

## Centralized Management

According to HUD's May 1997 "how to" guidebook on using private firms to manage public housing, a key difference between public and private management is the degree of centralization. Most housing authorities manage their housing operations from a central office with centralized budgeting and accounting systems, while private firms rely on decentralized management with property-based accounting, which, in turn, provides the information necessary to prepare property-based budgets. When consolidated, compared, and analyzed, this property-based information provides a basis for deciding how to manage the housing authority's assets.<sup>5</sup> According to the Institute for Real Estate Management, HUD is encouraging public housing authorities to adopt decentralized management practices, including property-based budgeting and accounting, which are common in the private sector. However, most housing authorities have not transformed their systems. Without property-based budgeting and accounting, housing authorities have difficulty determining the true costs of operating a housing development. Such information is necessary to control costs, measure program efficiency, and make strategic asset management decisions such as whether to privatize the management of individual developments.

All four housing authorities we visited are decentralizing their operations, although the level of decentralization varies. The District of Columbia Housing Authority has decentralized its property oversight by dividing itself into three nearly autonomous, similarly sized regional housing agencies. The Boston Housing Authority split its elderly and family housing portfolios and placed a portion of each under private management. The New York City Housing Authority, on the other hand, chose to privatize its scattered-site housing program. In all three cases, the goal was to devolve responsibility and accountability for individual developments so that managers could focus on analyzing the physical, structural, and marketing needs of their housing portfolios. In addition, the use of private property managers has instilled competition, and exchanges

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<sup>5</sup>Whereas a traditional housing authority director can be compared to a hands-on chief operating officer, an asset manager is more like a chief executive officer, supervising and implementing policy. More specifically, asset management depends on systems and data, including project-based budgeting and accounting systems, a property-based performance-monitoring system, relevant market information, and property-based data on physical needs.

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between private and in-house managers have enhanced performance throughout entire agencies.

Property-based budgeting and accounting are common in private property management but rare in public housing because of the program's unique funding arrangement: HUD provides both capital and operating funds to a housing authority as a single organizational unit, not to individual developments under the authority's management. HUD's regulations require housing authorities that manage over 500 units to practice project-based or cost-centered accounting.<sup>6</sup> Preparing property-based budgets, which requires establishing and maintaining appropriate accounting records at each property, can improve efficiency and responsiveness because such budgets accurately present the costs of operating each property. Knowing costs at the project level enables management to determine how much of an agency's operating resources are spent on the properties themselves compared with central office overhead. It can also provide information to guide capital expenditures and to identify properties whose management would benefit from private management. According to the former deputy assistant secretary, property-based budgeting and accounting are the single most effective tools for measuring the performance of a property; without them, a housing authority cannot truly decentralize operations because its internal controls will be inadequate. Of the four housing authorities we examined in detail, Atlanta's came closest to achieving a full property-based budgeting and accounting system.

### Inexperience in Monitoring Contractors' Performance

Delegating property-management functions to private companies relieves a housing authority of day-to-day property management tasks; however, private management experts and housing authority officials told us that to ensure success, privatization efforts need clear and specific performance-based standards and in-house staff able to run effective monitoring programs. According to District of Columbia Housing Authority officials, the private firms under performance-based standards outperformed those without performance-based standards. Housing authority officials in Atlanta also included performance measures in private management contracts. Accordingly, Atlanta will pay management companies that meet agreed-upon performance goals a bonus over and above the monthly management fee. Conversely, Atlanta plans to penalize management companies that fail to meet its performance standards.

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<sup>6</sup>Cost centers can be delineated by administrative departments or divisions within a housing authority, by office locations, by individual projects, or by clusters or communities of projects that consist of one or more contiguous buildings, an area of contiguous row houses, or scattered-site buildings.

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Monitoring is also essential to ensure that contractors perform effectively. HUD's private management guidebook describes property management oversight activities as including monthly or quarterly site visits, annual or semiannual reviews of management procedures, monthly reviews of income and expense statements and operating performance data, and reviews of audited financial statements. All four authorities we reviewed require private management companies to submit periodic management and financial reports.

### Residents' Fears of Change

Residents' fears, whether real or perceived, can be major obstacles to successfully adopting private management. Our survey results suggest that most housing authority officials do not know how their residents view private management. When asked if they believed residents favored private management, 48 percent of the housing authority officials neither agreed nor disagreed with the statement. Of those that responded, those at housing authorities that have hired private firms to manage at least one housing development were less concerned about residents' fears of change. Only 8 percent of those at housing authorities that have privatized at least one development responded that they believe residents do not favor private management, compared with over 35 percent of those at housing authorities that have not privatized any developments.

Effective communication can help to avoid or overcome these problems. For example, the residents at one Chicago development initially thought that they would lose their homes under private management. To allay these fears, the property management company presented its plans to the residents and subsequently held monthly meetings to update them on the management transition. In Boston, the authority included the residents in its review of the bidders' qualifications. According to resident leaders at both authorities, most of the residents now prefer private management and are pleased with the additional social services and improved living conditions provided by the private management companies.

### Concerns About Displacing Housing Authority Personnel

To implement private management, housing authorities must be willing to address concerns about displacing in-house staff. Housing authorities use different approaches to mitigate the impact of private management on existing personnel. HUD's privatization guidebook identifies five approaches: (1) Choose properties for private management that are new or recently modernized, thus minimizing the displacement of existing staff; (2) rely on staff attrition to cover the costs of and limit the need for reductions in force; (3) freeze personnel vacancies for over a year in anticipation of private management; (4) ask the private firms to hire

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existing staff for some period; and (5) use the management improvement line item in HUD's comprehensive grant modernization program as a source of transitional funding, thereby giving the housing authority more time to adjust its organization.

The Atlanta Housing Authority encouraged private managers to hire housing authority employees who were assigned to a development, subject to the management company's pre-employment requirements. The housing authority stipulated that management companies that hire its employees must recognize and honor each individual's respective years of service in determining eligibility and benefit levels under the company's group insurance and leave accrual plans. Furthermore, all staff who took jobs with private management companies were eligible to reapply to the housing authority within 1 year; however, few people took advantage of this offer. The District of Columbia Housing Authority, on the other hand, recognized that the low performance level of its staff was part of the problem and did not require or encourage private firms to hire its staff.

### The Disincentive Created by High Management Assessment Scores

In response to our survey question asking why private management had not been considered as an option, executive directors often cited their high PHMAP scores and interpreted those scores to mean that their programs were running efficiently. Under PHMAP, however, high scores are common and should not be the only measure of program efficiency. As of February 1999, 99 percent of the housing authorities had passing scores; over 75 percent scored over 90 out of 100, and HUD rated them as "high performers." HUD's new Public Housing Assessment System is designed to be more comprehensive. One of its four components will measure the physical condition of public housing. For that reason, the new assessment system may provide a better measure of an authority's potential to make more effective use of its resources by adopting asset management and other private management strategies. In the past, HUD required some of the troubled, primarily very large housing authorities, such as those in Atlanta and Chicago, to incorporate private management, and the results have been positive. Whether private management could benefit housing authorities of all sizes, regardless of their performance scores, is not known.

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## Opportunities Exist for HUD to Encourage More Cost-Effective Use of Resources

Each year, HUD provides grants and subsidies totaling nearly \$6 billion to housing authorities. Because of this substantial funding, HUD bears a responsibility to ensure that housing authorities focus adequate attention on making cost-effective use of their resources. To carry out this responsibility, HUD has several relatively new means of focusing housing authorities' attention on strategies, including private management, for increasing revenue, lowering costs, and improving the quality of services in public housing. These means include (1) the Department's guidebook on privatization; (2) new regulations that require periodic housing agency plans, implementation of HUD's newly designed Public Housing Assessment System, and adoption of new formulas for providing annual grants and subsidies to housing authorities; and (3) the Department's annual performance planning process. By taking full advantage of each of these means of emphasizing cost-efficiency in public housing, HUD can ensure that housing authorities perceive that the cost-effective use of resources is a high priority and that HUD supports the authorities' exploration of strategies such as private management for using their resources cost-effectively.

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## HUD's Guidebook Could Be Made More Accessible

HUD has recognized that private management can have positive results. HUD published a private management guidebook and made it available on the Internet to help housing authorities adopt this strategy. The cover letter to the 1997 guidebook, signed by the Secretary of Housing and Urban Development, endorses private management—stating that “[w]ell-structured private management programs have resulted in reduced costs, improved performance, and higher quality of work”. However, the guidebook is not easily accessible from HUD's Internet Web site because it does not have a separate link and will not appear on a search of HUD's “guidebook” database. The user must search for the words “private management” to access the document. In contrast, HUD's HOPE VI Urban Revitalization Demonstration Program has a prominent link on the Public and Indian Housing home page with access to a separate Web site that collects and shares information on best practices, a resource bank of sample requests for proposals, requests for qualifications, contracts, and HUD policies and regulations that affect the program.

Housing authority officials also seemed unsure of HUD's position on private management. When asked to react to a statement about whether HUD supports private management, 60 percent neither agreed nor disagreed with the statement. We believe that this response reflects a perception on the part of housing authority managers that HUD has not taken a position

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on private management. Housing authority employees attending HUD's July 1999 conference on best practices would not have seen much evidence that HUD supports the use of private management for public housing. The topic was not covered in any of the nearly 100 workshops on best practices held at the 5-day conference. Only a handful of the over 1,300 nominations for best practices submitted for HUD's Public and Indian Housing programs covered some aspect of private management.

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**New Regulations and a  
New Performance  
Measurement System Offer  
Opportunities for HUD to  
Encourage the  
Cost-Effective Use of  
Resources**

The Quality Housing and Work Responsibility Act of 1998 (title V, P.L. 105-276) substantially amends the U.S. Housing Act of 1937 and offers HUD several opportunities to encourage greater cost-effectiveness in public housing. For example, the act requires housing authorities to develop annual and 5-year plans that describe, among other things, the agencies' plans for implementing an asset management philosophy for their public housing inventory.<sup>7</sup> In addition, the act provides for entities other than housing authorities to administer public housing and for two or more housing authorities to form consortia to administer any or all of each agency's respective housing programs. In its initial guidance—published on February 18, 1999—HUD stated that the two provisions will require rulemaking. HUD's goal is for housing authorities to plan strategically to make more efficient use of federal assistance, more effectively operate their programs, and better serve their residents. HUD's interim rule for developing public housing planning documents—also published on February 18, 1999—stated that the purpose of both the annual and the 5-year plans is to require housing authorities to examine their existing operations and needs and to design short- and long-range strategies to address those needs. Although the interim rule did not explicitly refer to private management as a management option, the Deputy Assistant Secretary, Office of Policy, Program, and Legislative Initiatives, told us that the template HUD is currently considering as a model for public housing plans contains private management as an example in the section on asset management. He also agreed that HUD should strongly encourage small housing authorities to form consortia.

HUD currently has another opportunity to emphasize cost-effectiveness and provide incentives for housing authorities to increase revenues as it develops a new formula for providing operating subsidies to housing authorities. The Quality Housing and Work Responsibility Act of 1998 stipulates that housing authorities can benefit from reductions in their

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<sup>7</sup>The act specifies that asset management functions include, but are not limited to, plans for long-term operating and capital investment, rehabilitation, modernization, and property disposition.

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utility and waste management costs and increases in the incomes earned by residents. However, these incentives, though positive, are not likely to generate much revenue for housing authorities, at least not in the short term.<sup>8</sup> Moreover, in our 1998 report on HUD's current system of providing subsidies, we found that the four large housing authorities we visited believed that they needed incentives and flexibility to increase their revenues so that they would be less dependent on HUD's operating subsidy.<sup>9</sup>

A characteristic of private managers of public housing is that their business practices, such as more aggressive evictions, timelier rent collections, and faster preparation of vacated housing units for occupancy, result in higher rental revenue. However, unless housing authorities believe that they will not lose a portion of their subsidy if they maximize income, they may not be motivated to explore private management as a strategy to increase their rental income. Therefore, as HUD develops a new operating subsidy formula, it can consider a stronger performance incentive as part of the new subsidy formula. Such an incentive would be consistent with a broad provision in the act to create a performance incentive in the public housing capital grant program.

Finally, HUD has an opportunity to emphasize cost-effectiveness in its new Public Housing Assessment System. HUD will implement this system on October 1, 1999, and its purpose is to measure housing authorities' performance on the basis of standards that are objective, uniform, and verifiable. HUD published a notice in the May 13, 1999, Federal Register that details the new assessment system's scoring process. While the new system includes financial indicators, such as liquidity levels, receivables outstanding, and expense controls, it does not include measures of program efficiency, such as the number of households served per month per unit of cost, that can be used to compare operating costs with housing services provided.

By referring to private management in its new management regulations as a useful management tool or strategy, HUD could help to build the concept into housing authorities' strategic planning. HUD would then know that authorities were at least aware that the Department supports private management as an option for achieving greater productivity through the

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<sup>8</sup>While the earnings of former welfare recipients may eventually benefit housing authorities, they are not likely to do so during the first year. The act mandates that housing authorities disregard for 12 months increases in income for persons who (1) have been unemployed for 1 or more years and obtain employment through participation in a family self-sufficiency or job training program or (2) have received temporary assistance for needy families within the last 6 months. After the 12-month period, the rent increase is phased in at no greater than 50 percent for the next 12-month period.

<sup>9</sup>Public Housing Subsidies: Revisions to HUD's Performance Funding System Could Improve Adequacy of Funding (GAO/RCED-98-174, June 19, 1998). To prepare this report, we conducted in-depth interviews with housing authorities in Baltimore, Kansas City, Los Angeles, and Miami.

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more cost-effective use of resources, higher-quality services, or increased revenues. In addition, once authorities start to consider private management in their planning and asset management decisions, HUD could improve its own performance plan, as discussed below.

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**HUD's Performance Plan Also Provides Opportunities for Fostering the Cost-Effective Use of Resources**

To further encourage the cost-effective use of public housing resources, HUD has established expectations for housing authorities in its fiscal year 2000 annual performance plan. In this plan, HUD expresses its expectations for itself and its partners as either outcome or programmatic output indicators. In guidance issued to all agencies on how to develop these indicators in annual performance plans, OMB stated that "agencies are strongly encouraged to include, as appropriate, measures of customer service and program efficiency."

In its fiscal year 2000 performance plan, HUD specifies five strategic goals, one of which is to increase the availability of decent, safe, and affordable housing in American communities. To help achieve this goal, the plan states, HUD will aid public housing authorities in analyzing their housing markets, their most pressing needs, and their most cost-effective responses through their operating plans. However, under this strategic goal, the plan includes no outcomes or outputs—for either HUD or housing authorities—to measure the achievement of cost-effectiveness through joint HUD-housing authority analyses of markets and needs.

The Director of Policy Development, Office of Policy Development and Research, said that the plan did not focus on productivity measures because some incentive to make cost-effective use of available resources already exists in the public housing operating subsidy formula. She said that a housing authority's allowable expenses are predetermined for a given year; therefore, if an authority can reduce its costs through efficiencies, it will have some extra funds for discretionary uses that year. Having these extra funds, therefore, would be an incentive to operate more efficiently.

However, our 1998 report on HUD's current system of operating subsidies, while limited in scope to four large housing authorities, found that housing authorities did not recognize this incentive, nor were they gaining discretionary income by becoming more operationally efficient. Instead, these four housing authorities reduced or deferred their maintenance or used other grants to defray operating costs to cope with what they considered inadequate funding. The Director of Policy Development noted

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that to create more incentives to operate efficiently, a negotiated rulemaking panel that is currently developing a new formula for operating subsidies might build some incentives for cost-effectiveness into the new formula.

Two of HUD's five strategic goals are partially related to providing safe public housing. In turn, parts of key objectives within these goals specify that housing should be safe and that housing authorities should be held accountable for results. HUD's performance plan discusses several means of achieving these objectives, including rating housing authorities on their administration, regularly inspecting the physical quality of public housing, and subsequently enforcing contracts that require housing to be kept in standard condition. To measure public housing safety, the performance plan contains indicators related to tenants' satisfaction, housing quality standards, and life-threatening health and safety deficiencies. However, the plan does not similarly emphasize and include indicators for the cost-effective use of resources. Moreover, it does not link the safety indicators with incentives such as funding or with consequences for not achieving minimum performance, as OMB suggested in its November 1998 passback. Therefore, without cost indicators or a linkage between performance and incentives, housing authorities may perceive that the cost-effective use of resources is not important to HUD and that exploring strategies such as private management to reduce costs is not encouraged.

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## Conclusions

The public housing authorities we reviewed have not widely embraced private management, but where they have, the results generally have been positive and demonstrate that private management can be a catalyst for change and improvement. Because many housing authorities have not considered private management as an alternative housing management strategy, we believe that they may have been depriving themselves and their residents of private management's potential benefits. In addition, to the extent that private management could help to raise public housing revenues, excessive subsidies could be avoided and services could be increased. Because private management is not an irreversible change in management style, we believe that more housing authorities could afford to consider it before concluding that it would not work for them.

Although HUD has required some troubled housing authorities to implement private management, the Department has not actively promoted this approach. For example, it did not include private management in public housing on the agenda for its recent conference on

best practices. In addition, HUD's guidebook on private management is hard to find on the Internet. Nevertheless, HUD currently has several opportunities to encourage housing authorities to focus on operational efficiency by considering options such as asset management and private management. These opportunities include the framing of new regulations that will implement HUD's new Public Housing Assessment System and the 1998 public housing reform legislation. This legislation mandates a new operating subsidy formula and requires housing authorities to prepare annual and 5-year plans. In addition, HUD has an opportunity to develop outcome and output indicators for its performance plan that would enable the Department to measure whether housing authorities are adopting cost-conscious management approaches.

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## Recommendations

To implement provisions of the Quality Housing and Work Responsibility Act of 1998, clarify the Department's position on private management, and foster the cost-effective use of federal resources, we recommend that the Secretary of Housing and Urban Development

- make the 1997 guidebook on private management more readily accessible on HUD's Internet Web site and expand the site to include additional information, such as a resource bank of important private management documents, best practices, and pertinent experiences, that housing authorities can share;
- ensure that the regulations HUD develops to implement provisions of the 1998 public housing reform legislation (1) encourage housing authorities through their planning process to consider and adopt asset management principles, including project-based budgeting and accounting; (2) encourage small housing authorities to look for opportunities to achieve efficiencies by forming consortia or joint ventures that could include third parties; and (3) provide incentives for housing authorities to make more cost-effective use of their resources;
- develop outcome and output indicators in the Department's annual performance plan that can be used to measure whether housing authorities are adopting cost-conscious management approaches.

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## Agency Comments and Our Evaluation

We provided copies of a draft of this report to HUD and OMB for review and comment. Later, we met with HUD's Deputy Assistant Secretary for Policy, Programs, and Legislative Initiatives and Deputy Assistant Secretary for Community Relations and Involvement and OMB's Housing Branch Chief to

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obtain their comments. We also sent each of the case studies in appendix III to the appropriate housing authority for review and comment.

HUD generally agreed with the report and all but one of our recommendations and said that the report provided new and useful information that should benefit housing authorities as they consider hiring private-sector contractors to help operate and maintain their properties. In several areas, however, HUD disagreed with the draft report. In particular, the draft report included a proposed recommendation that HUD consider adding an indicator to its new Public Housing Assessment System that would measure changes in program efficiency. Although HUD believes that such an indicator would be useful, it also believes that the Department's new assessment system contains several similar indicators. Moreover, HUD said that because the resources available to public housing authorities are not equal across the board, developing an equitable indicator of efficiency is not technically feasible at this time. We agreed and withdrew our proposed recommendation for such an indicator.

HUD also differed with our characterization of the Department as neutral toward privatization because of the disclaimer printed in its privatization guidebook. According to the Department, the disclaimer meets a legal requirement and does not represent HUD's position. HUD believes it is positive rather than neutral about the benefits of using private contractors to operate public housing. We revised the report to reflect HUD's position.

OMB officials also agreed with the report's conclusions and recommendations, and they provided several suggestions to enhance clarity, which we have incorporated as appropriate.

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## Scope and Methodology

To assess OMB's basis for estimating HUD's potential savings from implementing private management, we met with OMB staff to obtain supporting documentation. We also reviewed correspondence between the Council of Large Public Housing Authorities and OMB concerning OMB's support. In addition, we reviewed studies and published articles on privatizing public housing and other social services.

To determine the extent to which housing authorities have adopted private management strategies in their public housing programs, we mailed a survey to 1,182 housing authorities to obtain their views on contracting with private companies. We drew our sample from HUD's Public Housing

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Authority Profiles database that we downloaded from the Department's home page on the Internet.

For assistance in designing our survey, we obtained input on the content of the questionnaire from officials of the National Association of Housing and Redevelopment Officials, private management companies, and housing experts. We pretested the questionnaire with officials of six housing authorities in Maryland, Virginia, and Georgia. Each pretest consisted of a visit by our staff to a housing authority. During these visits, we simulated the actual survey experience by asking housing authority officials to fill out the questionnaire. We also interviewed housing authority officials after they had completed the questionnaire to ensure that (1) the questions in the survey were readable and clear, (2) the terms used in the survey were precise, (3) the survey did not place an undue burden on housing authority officials, and (4) the survey was independent and unbiased in its point of view.

We used HUD's size classification categories for public housing agencies and mailed 1,182 surveys addressed to executive directors—401 surveys to all of the very large, large, and medium-sized housing authorities, 399 surveys to a random sample of the small housing authorities, and 382 surveys to a random sample of the very small housing authorities. We received 1,065 completed, useable questionnaires—a response rate of 90 percent.

To identify housing authorities' views on and experiences with hiring contractors to manage specific housing developments and perform discrete housing management functions, we visited housing authorities in Atlanta, Boston, Chicago, and Washington, D.C. Case study analyses of these four locations enabled us to gain an in-depth understanding of issues associated with privatizing the management of public housing developments in these jurisdictions. We selected these cities because of their varying experiences with private management. We also met with public housing experts, private management companies, public housing residents, HUD officials, and OMB staff to obtain their perspectives on the use of private management for public housing. In addition, we evaluated a significant study done in October 1998 that attempted to measure differences in efficiency and effectiveness between privately and publicly managed public housing properties in Dade County, Florida.

Finally, to evaluate HUD's role in fostering successful private management efforts at housing authorities, we met with officials from two HUD

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offices—Public and Indian Housing, and Policy Development and Research. We also spoke with officials from HUD’s Atlanta, Boston, Chicago, and Washington, D.C., field offices. In addition, we discussed HUD’s role with public housing experts, housing authority officials, and private management companies.

We conducted our review from July 1998 through June 1999 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Chairs and Ranking Minority Members of the Senate and House Committees with responsibility for public housing; to Andrew Cuomo, Secretary of Housing and Urban Development; and to Jacob Lew, Director, Office of Management and Budget. We will make copies available to others on request.

Please contact me at (202) 512-7631 if you or your staff have any questions. Key contributors to this report are listed in appendix IV.



Judy A. England-Joseph  
Director, Housing and Community  
Development Issues

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## Abbreviations

AHA	Housing Authority of the City of Atlanta
BHA	Boston Housing Authority
CHA	Chicago Housing Authority
DCHA	District of Columbia Housing Authority
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
PHA	Public Housing Authority
PHMAP	Public Housing Management Assessment Program
VA	Department of Veterans Affairs

# Survey Results

This appendix summarizes the results of our survey of 1,182 housing public authorities. We drew our sample of housing authorities from the Department of Housing and Urban Development's (HUD) Public Housing Authority Profiles database, which we downloaded from HUD's home page on the Internet. We mailed questionnaires to the executive directors of (1) all 401 housing authorities classified by HUD as very large, large, and medium-sized; (2) a random sample of 399 housing authorities classified as small; and (3) a random sample of 382 housing authorities classified as very small. We received completed, useable questionnaires from 1,065 housing authorities—a response rate of 90 percent. This appendix summarizes our analysis of the responses we received.

## Most Housing Authorities Contract With Private Companies for Some Management Services or Functions

We found that 76 percent of housing authorities contract for at least one housing management service with a private company. In most cases, housing authority managers responded that the shift from in-house management to private management improved operations. Table I.1 identifies the 10 services that, according to respondents, are most often provided by private companies, the percentage of housing authorities using private companies, and housing authority managers' views on the results of using these companies.

**Table I.1: Management Services Most Often Provided by Private Contractors**

Type of service	Percentage of housing authorities that contract for that service	Reported change resulting from using private company (in percent)		
		Became worse	Did not change	Became better
Pest control	81	3	19	65
Trash collection	73	4	35	37
Bookkeeping/accounting (excluding audit)	57	2	17	54
Vehicle maintenance	43	2	31	49
Training housing authority employees	39	0	14	77
Landscaping/grounds-keeping	38	5	24	69
Processing evictions and other legal services	30	3	25	57
Providing training and social services for residents	20	4	19	65
Conducting background checks	18	2	17	70
Administration of modernization programs	18	5	11	71

Source: GAO's analysis of survey responses.

### Contracts for Management Services Are Small Compared With Housing Authorities' Operating Budgets

The costs of contracts for individual management services or functions typically represent a small percentage of a housing authority's operating budget. About 70 percent of the housing authorities that contract for individual services or functions reported that they spend 10 percent or less of their operating funds for private firms to perform individual services. Twenty-one percent reported paying 11 to 20 percent to outside firms, and 10 percent reported paying more than 20 percent. Savings usually result from lower costs for salaries and equipment.

### Most Housing Authorities Are Not Contracting for the Management of Entire Public Housing Developments

The percentage of housing authorities that have hired private companies to manage entire developments is low (fewer than 3 percent of all housing authorities), according to our survey results. Table I.2 shows the breakdown, by size, of the housing authorities that are using private management companies.

Table I.2: Housing Authorities' Use of Private Companies to Manage Developments

Size of housing authority	Percentage using private management companies
Very large	86
Large	10
Medium	1
Small	1
Very small	3

### Very Large or Very Small Housing Authorities Are More Likely to Use Private Management for Their Developments

Because very large housing authorities own most of the units being privately managed, about 9 percent of all public housing, or over 100,000 units, is under private management. In addition, very small housing authorities are hiring private managers to manage some or all of their housing developments, although this activity accounts for only a small fraction of the total public housing stock. Table I.3 identifies the housing authorities responding to our survey that are using private contractors or resident managers to manage some or all of their housing developments and indicates how many units are under private management.

**Appendix I  
Survey Results**

**Table I.3: Housing Authorities Using Private Management Companies to Manage Housing Developments**

<b>Size/name of housing authority</b>	<b>Total number of public housing units</b>	<b>Total number of units under private management</b>
<b>Very large</b>		
Puerto Rico	56,836	56,836
Chicago, IL	35,087	17,252
Atlanta, GA	14,308	4,492
New York City, NY	157,757	4,100
Boston, MA	12,600	3,456
Washington, D.C.	11,780	2,438
Dade County, FL	10,348	1,772
Philadelphia, PA	20,692	1,572
New Orleans, LA	11,678	1,546
Baltimore, MD	16,951	324
Cuyahoga, OH	11,112	36
<b>Large</b>		
Hawaii	5,367	2,023
St. Louis, MO	5,107	1,561
Jersey City, NJ	3,605	1,438
San Bernardino, CA	1,731	815
Seattle, WA	6,500	700
Houston, TX	3,414	500
Kansas City, MO	1,308	232
Milwaukee, WI	4,752	370
Charlotte, NC	3,714	290
Newark, NJ	9,319	206
San Francisco, CA	6,064	85
Minneapolis, MN	6,361	42
<b>Medium</b>		
St. Petersburg, FL	891	555
Stamford, CT	841	242
<b>Small</b>		
San Diego County, CA	121	121
Winnebago County, IL	325	100
<b>Very small</b>		
Dane County, WI	86	86
Stuart, FLA	70	70
Pleasanton, CA	50	50
Mount Holly, NC	46	46

(continued)

**Appendix I  
Survey Results**

<b>Size/name of housing authority</b>	<b>Total number of public housing units</b>	<b>Total number of units under private management</b>
Konawa, OK	38	38
Welsh, LA	36	36
Caddo Electric Coop, OK	34	34
Bancroft, LA	28	28
Cheyenne, OK	22	22
Emmons, ND	15	15

Fewer than 10 percent of the housing authorities responding to our survey disagreed with the statement that their properties would not benefit from private management. A slightly higher percentage (11 percent) disagreed with the statement that private management is more costly than managing with in-house staff. As figures I.1 and I.2 indicate, support for private management increases with the size of the housing authority.

**Figure II.1: Percentage of Responding Housing Authorities, by Size, Agreeing That Their Properties Would Not Benefit From Private Management**

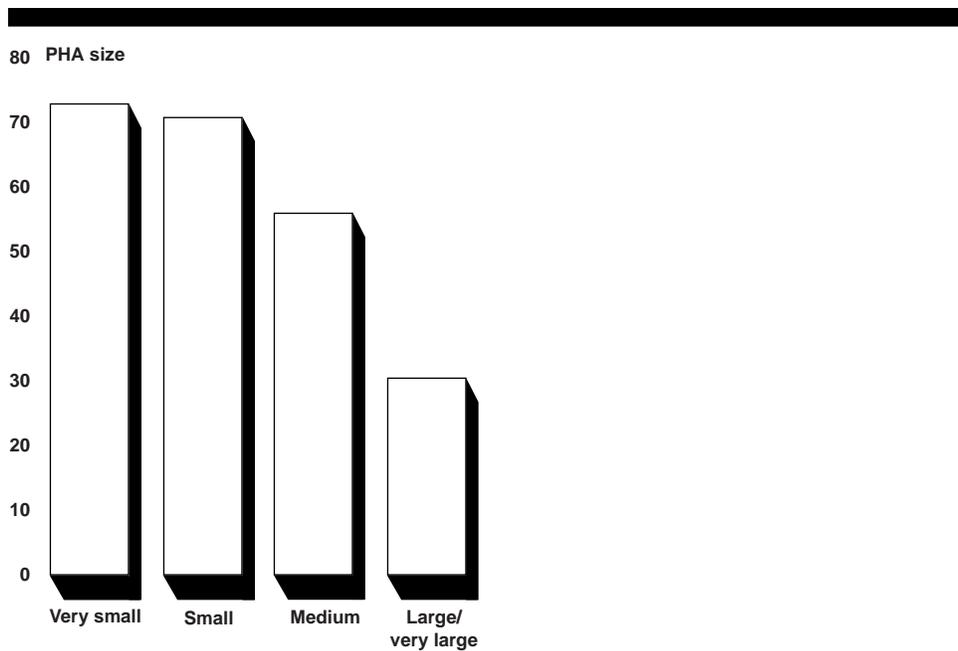
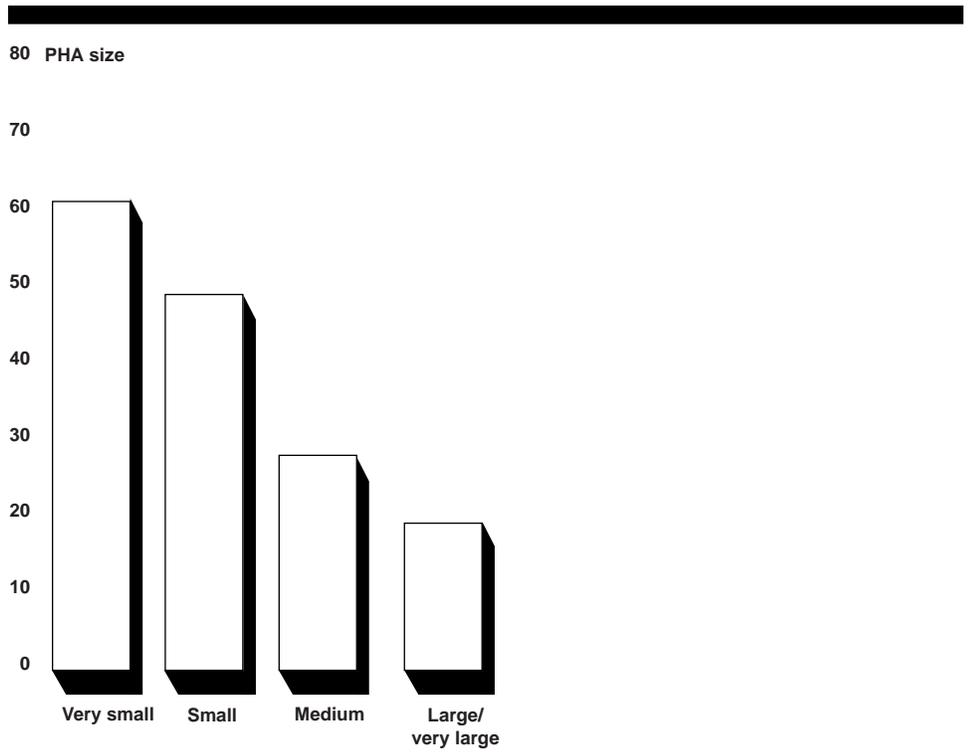


Figure II.2: Percentage of Responding Housing Authorities, by Size, Agreeing That Private Management Is More Costly Than Managing With In-House Staff



Housing authority directors who have and have not tried private management responded differently to these and other statements about private management. Table II.4 compares the opinions of the two groups of respondents.

**Table II.4: Housing Authority Managers' Beliefs About the Benefits of Private Management for Authorities That Have and Have Not Privatized Housing Developments**

Percentage of respondents that agreed		
Statement about the use of private management for individual developments	Housing authorities with one or more privately managed housing developments	Housing authorities with no privately managed housing developments
Properties would not benefit from private management	8	66
Private management is more costly than managing with in-house staff	16	47
The way to begin implementing private management is unclear	16	41
Current housing authority employees may be displaced if private management is used	57	78
Contractor performance is difficult to monitor	16	44
There is a lack of competent management firms in your area	25	45

## Housing Authorities Are Not Clear as to HUD's or Residents' Views on Private Management

Seventy-two percent of the housing authorities responding to our survey indicated that they neither agreed nor disagreed with the statement that “HUD does not support private management.” The percentage that disagreed was significantly higher for housing authorities that have contracted for the management of one or more developments (65 percent) than for housing authorities that have not (20 percent).

Sixty percent of the housing authorities responded that they neither agreed nor disagreed with the statement that “Residents in your [housing authority] are not in favor of private management.” Eight percent of the responding housing authorities that have contracted for the management of one or more developments agreed with the statement, compared with 35 percent of the responding housing authorities that have not.

# Sampling Errors and Confidence Intervals for Estimates

This appendix presents (1) estimates of the responses we would have received to selected questions in our survey of public housing authorities (PHA) if we had surveyed the executive directors of all of the nation’s PHAs and (2) sampling errors and confidence intervals for these estimates. Although we surveyed all very large, large, and medium-sized housing authorities, we used a sample (called a probability sample) of the small and very small housing authorities. Our survey results are, therefore, estimates, each of which has a measurable precision, or sampling error, that may be expressed as a plus/minus figure. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. The range between these bounds is called the confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedure we use would produce a confidence interval containing the value we are estimating. Table II.1 lists the sampling errors and confidence intervals for selected estimates.

**Table II.1: Sampling Errors and Confidence Intervals for Estimates Derived From Responses to Selected Survey Questions**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
<b>Public housing units managed by a private company or resident management corporation</b>	8.70	.001	8.70	8.70
<b>Type of service provided wholly or partially by a private company and the change resulting from using the private company</b>				
Bookkeeping/accounting (excluding audit)				
Used	52.77	1.30	50.22	55.32
Not Used	22.24	0.93	20.42	24.06
Became worse	0.85	0.24	0.38	1.32
Did not change	8.48	0.78	6.95	10.01
Became better	25.67	1.20	23.32	28.02
Don't know	13.99	0.98	12.07	15.91
Contracting and procurement				
Used	6.01	0.66	4.72	7.30
Not Used	65.17	1.28	62.66	67.68
Became worse	0.74	0.23	0.29	1.19
Did not change	1.11	0.30	0.52	1.70

(continued)

**Appendix II  
Sampling Errors and Confidence Intervals  
for Estimates**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
Became better	3.41	0.50	2.43	4.39
Don't know	0.38	0.17	0.05	0.71
Collection of rents				
Used	2.83	0.39	2.07	3.59
Not Used	70.66	1.22	68.27	73.05
Became worse	0.33	0.12	0.09	0.57
Did not change	0.79	0.21	0.38	1.20
Became better	1.32	0.26	0.81	1.83
Don't know	0.09	0.00	0.09	0.09
Economic development				
Used	1.69	0.30	1.10	2.28
Not Used	69.94	1.23	67.53	72.35
Became worse	0.03	0.00	0.03	0.03
Did not change	0.26	0.08	0.10	0.42
Became better	0.86	0.23	0.41	1.31
Don't know	0.26	0.08	0.10	0.42
Marketing properties				
Used	1.98	0.29	1.41	2.55
Not used	70.05	1.22	67.66	72.44
Became worse	0.20	0.12 <sup>a</sup>	-0.04	0.44
Did not change	0.41	0.14	0.14	0.68
Became better	1.01	0.19	0.64	1.38
Don't know	0.23	0.08	0.07	0.39
Processing new public housing applications				
Used	2.14	0.40	1.36	2.92
Not Used	70.90	1.22	68.51	73.29
Became worse	0.03	0.00	0.03	0.03
Did not change	0.50	0.18	0.15	0.85
Became better	1.38	0.33	0.73	2.03
Don't know	0.10	0.08 <sup>a</sup>	0.06	0.26
Recertifying residents				
Used	1.62	0.35	0.93	2.31
Not Used	71.81	1.21	69.44	74.18
Became worse	0.00	0.00	0.00	0.00
Did not change	0.39	0.16	0.08	0.70
Became better	0.95	0.28	0.40	1.50
Don't know	0.15	0.11 <sup>a</sup>	-0.07	0.37

(continued)

**Appendix II  
Sampling Errors and Confidence Intervals  
for Estimates**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
Conducting background checks				
Used	10.84	0.77	9.33	12.35
Not Used	62.78	1.29	60.25	65.31
Became worse	0.16	0.08	0.00	0.32
Did not change	1.79	0.34	1.12	2.46
Became better	6.89	0.63	5.66	8.12
Don't know	1.32	0.29	0.75	1.89
Providing training and social services for residents				
Used	9.60	0.65	8.33	10.87
Not Used	62.53	1.28	60.02	65.04
Became worse	0.38	0.14	0.11	0.65
Did not change	1.74	0.29	1.17	2.31
Became better	5.84	0.51	4.84	6.84
Don't know	1.01	0.21	0.60	1.42
Processing evictions and other legal services				
Used	19.42	0.98	17.5	21.34
Not Used	53.69	1.33	51.08	56.30
Became worse	0.64	0.21	0.23	1.05
Did not change	4.81	0.55	3.73	5.89
Became better	10.22	0.75	8.75	11.69
Don't know	2.38	0.37	1.65	3.11
Training PHA employees				
Used	22.89	1.02	20.89	24.89
Not Used	49.96	1.33	47.35	52.57
Became worse	0.00	0.00	0.00	0.00
Did not change	3.05	0.41	2.25	3.85
Became better	17.33	0.92	15.53	19.13
Don't know	2.24	0.37	1.51	2.97
Administration of modernization programs				
Used	15.23	0.99	13.29	17.17
Not Used	57.36	1.33	54.75	59.97
Became worse	0.82	0.26	0.31	1.33
Did not change	1.59	0.35	0.90	2.28
Became better	9.89	0.82	8.28	11.50
Don't know	2.20	0.42	1.38	3.02

(continued)

**Appendix II  
Sampling Errors and Confidence Intervals  
for Estimates**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
Landscaping/grounds-keeping				
Used	23.75	1.08	21.63	25.87
Not Used	49.95	1.34	47.32	52.58
Became worse	1.30	0.30	0.71	1.89
Did not change	5.57	0.58	4.43	6.71
Became better	15.15	0.90	13.39	16.91
Don't know	0.55	0.18	0.20	0.90
Trash collection				
Used	52.81	1.34	50.18	55.44
Not Used	20.40	1.07	18.30	22.50
Became worse	1.71	0.33	1.06	2.36
Did not change	16.50	0.99	14.56	18.44
Became better	17.40	1.00	15.44	19.36
Don't know	11.63	0.85	9.96	13.30
Routine and preventive maintenance				
Used	9.91	0.79	8.36	11.46
Not Used	62.96	1.29	60.43	65.49
Became worse	0.52	0.18	0.17	0.87
Did not change	2.54	0.39	1.78	3.30
Became better	5.32	0.60	4.14	6.50
Don't know	1.21	0.31	0.60	1.82
Protective services				
Used	15.75	0.80	14.18	17.32
Not Used	56.78	1.30	54.23	59.33
Became worse	0.52	0.18	0.17	0.87
Did not change	2.79	0.37	2.06	3.52
Became better	9.40	0.62	8.18	10.62
Don't know	2.02	0.31	1.41	2.63
Employee benefit				
Used	13.58	0.91	11.80	15.36
Not Used	59.24	1.32	56.65	61.83
Became worse	0.33	0.16	0.02	0.64
Did not change	3.17	0.47	2.25	4.09
Became better	6.28	0.63	5.05	7.51
Don't know	2.93	0.47	2.01	3.85
Annual unit inspections				

(continued)

**Appendix II  
Sampling Errors and Confidence Intervals  
for Estimates**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
Used	4.17	0.53	3.13	5.21
Not Used	69.27	1.24	66.84	71.70
Became worse	0.20	0.12 <sup>a</sup>	-0.04	0.44
Did not change	0.96	0.23	0.51	1.41
Became better	1.99	0.39	1.23	2.75
Don't know	0.50	0.20	0.11	0.89
Program evaluation				
Used	4.18	0.46	3.28	5.08
Not Used	67.11	1.25	64.66	69.56
Became worse	0.00	0.00	0.00	0.00
Did not change	0.74	0.18	0.39	1.09
Became better	2.48	0.36	1.77	3.19
Don't know	0.70	0.19	0.33	1.07
Pest control				
Used	60.81	1.31	58.24	63.38
Not Used	14.39	0.93	12.57	16.21
Became worse	1.46	0.30	0.87	2.05
Did not change	11.11	0.84	9.46	12.76
Became better	36.97	1.29	34.44	39.50
Don't know	7.62	0.69	6.27	8.97
Vehicle maintenance				
Used	26.62	1.10	24.46	28.78
Not Used	45.31	1.33	42.70	47.92
Became worse	0.26	0.08	0.10	0.42
Did not change	8.16	0.68	6.83	9.49
Became better	12.11	0.81	10.52	13.70
Don't know	4.96	0.55	3.88	6.04
<b>Extent to which PHAs agree or disagree with statements about the use of private management for developments and/or scattered site housing</b>				
<b>The way to begin implementing private management is unclear.</b>				
Strongly disagree/disagree	15.06	0.87	13.35	16.77
Neither agree nor disagree	31.75	1.25	29.30	34.20
Agree/strongly agree	35.99	1.29	33.46	38.52

(continued)

**Appendix II  
Sampling Errors and Confidence Intervals  
for Estimates**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
Current PHA employees may be displaced if private management is used.				
Strongly disagree/disagree	8.52	0.76	7.03	10.01
Neither agree nor disagree	11.64	0.87	9.93	13.35
Agree/strongly agree	63.70	1.29	61.17	66.23
Performance of contractors is difficult to monitor.				
Strongly disagree/disagree	24.03	1.07	21.93	26.13
Neither agree nor disagree	18.97	1.06	16.89	21.05
Agree/strongly agree	40.35	1.32	37.76	42.94
Your PHA's properties would not benefit from private management.				
Strongly disagree/disagree	6.50	0.61	5.30	7.70
Neither agree nor disagree	19.62	1.02	17.62	21.62
Agree/strongly agree	57.23	1.31	54.66	59.80
There is a lack of competent management firms in your area.				
Strongly disagree/disagree	10.41	0.73	8.98	11.84
Neither agree nor disagree	30.83	1.21	28.46	33.20
Agree/strongly agree	42.75	1.33	40.14	45.36
Private management is more costly than managing with in-house staff.				
Strongly disagree/disagree	6.96	0.61	5.76	8.16
Neither agree nor disagree	33.44	1.23	31.03	35.85
Agree/strongly agree	43.33	1.33	40.72	45.94
Property management is a PHA responsibility.				
Strongly disagree/disagree	2.60	0.41	1.80	3.40
Neither agree nor disagree	10.97	0.82	9.36	12.58
Agree/strongly agree	70.36	1.21	67.99	72.73
HUD's procurement processes make using private management difficult.				
Strongly disagree/disagree	9.76	0.70	8.39	11.13
Neither agree nor disagree	44.12	1.33	41.51	46.73
Agree/strongly agree	29.52	1.22	27.13	31.91

(continued)

**Appendix II**  
**Sampling Errors and Confidence Intervals**  
**for Estimates**

Survey topic	Estimate (in percent)	Sampling error	Confidence interval	
			From	To
HUD does not support private management.				
Strongly disagree/disagree	14.51	0.86	12.82	16.20
Neither agree or disagree	60.22	1.30	57.67	62.77
Agree/strongly agree	7.77	0.74	6.32	9.22
Residents in your PHA are not in favor of private management.				
Strongly disagree/disagree	2.72	0.42	1.90	3.54
Neither agree or disagree	48.46	1.32	45.87	51.05
Agree/strongly agree	32.29	1.27	29.80	34.78

<sup>a</sup>Because the lower bound of the confidence interval falls below zero, this sampling error and the associated confidence interval should not be considered reliable.

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# Very Large Housing Authorities’ Experiences With Private Management

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This appendix includes case study analyses of four very large housing authorities’ views on and experiences with private management. We visited these four housing authorities—in Atlanta, Boston, Chicago, and Washington, D.C.—to gain an in-depth understanding of issues associated with hiring contractors to manage specific housing developments and perform discrete housing management functions in these jurisdictions. We selected these four housing authorities because of their varying experiences with private management.

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## Housing Authority of the City of Atlanta

The Housing Authority of the City of Atlanta (AHA) operates over 14,000 units of public housing in Atlanta, Georgia. To address long-standing management problems, including excessive vacancies and poor maintenance, AHA developed and implemented over the past 4 years a comprehensive site-based housing management system, which merged management and maintenance functions at the site level. During this period, AHA also implemented a plan for private management. In 1996, AHA executed contracts with four private management companies to administer and operate 16 properties for families and the elderly—approximately one-third of its public housing stock. As a result, AHA officials believe that they have experienced a wide range of changes, most of which are positive and include improvements in the properties’ overall financial management, day-to-day physical maintenance, curb appeal, and occupancy rates. Moreover, AHA officials believe that the majority of the residents living in privately managed developments now have a favorable opinion of private management.

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## Background

AHA was organized in 1938 to provide safe and sanitary dwellings to low-income people. As of January 1, 1998, AHA operated 14,308 units of public housing,<sup>1</sup> located in 42 developments throughout the city. According to HUD’s Office of Inspector General, AHA had significant management problems for years. Because of these problems, which included excessive and lengthy vacancies, poor maintenance, and inadequate rent collection, AHA consistently scored below 60 percent under HUD’s Public Housing Management Assessment Program (PHMAP) and was classified as a troubled housing agency in November 1990. AHA’s troubled status, coupled with Atlanta’s designation in September 1990 as the site of the 1996 Olympic Games, created a sense of urgency for the authority to improve its operations and the condition of its properties.

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<sup>1</sup>Of the 14,308 public housing units that AHA operates under its contract with HUD, 5,340 had been demolished or approved for demolition by HUD as of Jan. 1, 1999.

To address the housing authority's long-standing problems, HUD and AHA entered into a memorandum of agreement and a cooperative recovery agreement on September 12, 1995. AHA desired to improve its management performance and eliminate its troubled status by accomplishing the goals and strategies outlined in the two agreements. The memorandum of agreement, for instance, contained an overall goal to reduce vacancies and increase occupancy. The memorandum outlined several strategies and tasks for meeting this goal, including (1) developing and implementing a comprehensive site-based management system with merged management and maintenance functions at the site level and (2) implementing a plan for private management.

In December 1995, AHA initiated an extensive procurement process to place approximately one-third of its conventional public housing stock under private management. AHA officials considered several factors in selecting these sites, including the properties' day-to-day operations and capital improvement needs and the residents' social service needs. AHA also sought and considered residents' input. Finally, AHA officials chose some sites with severe challenges and some that were easier to manage to encourage management agents to bid in certain sectors.

In April 1996, AHA executed contracts with four private management companies to administer and operate 13 sites. AHA also contracted with one company to provide interim management services while residents were being relocated at a site that was going to be demolished. Also in April 1996, AHA initiated a second procurement process to place two additional sites under private management. In June 1996, AHA executed contracts for these sites, bringing the total number of developments under private management to 16 out of the citywide total of 42 developments. These developments included a mix of properties for families and the elderly, and these initial contracts expired in June 1999. AHA rebid the contracts in December 1998 and plans to enter into 2-year contracts for a portfolio of 15 properties consisting of 4,144 units of public housing.

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### **AHA's Experience With Private Management Companies**

AHA's experience with private management has been positive. Private management companies have helped to improve the financial management and operating efficiency of the developments. In addition, customer service at the privately managed developments has improved. Decentralization, combined with monitoring and appropriately rewarding (or penalizing) the private management companies' performance, has encouraged efficient operations and responsiveness to residents' needs.

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**Improved Financial  
Management and Operating  
Efficiency**

Planning for the transition to private management helped to overcome residents' fears of change and concerns about displacing housing authority personnel.

Private management helped to improve the authority's overall financial management, according to agency officials. Before private management, for example, AHA did not have available monthly reports that compared the budgeted amounts for each development with the actual expenditures. Private management companies submit these reports each month for AHA to review. AHA's asset director will review any line item that differs by more than 10 percent from the budgeted amount. Although AHA officials believe overall financial management improved, they do not believe operating costs changed as a result of using private management. A senior private management company official said that savings are difficult to document because a significant portion of the benefits are costs that the properties have avoided. For instance, the senior official believed that one of the developments his company manages would have been demolished if private management had not made it viable.

Private management also helped to improve the operating efficiency and the revenue generated by the public housing properties, as demonstrated by improvements in AHA's vacancy rate, timeliness of rent collection, enforcement of lease provisions, and results of unit inspections. Furthermore, AHA officials said that the quality and timeliness of unit inspections improved because of private management.

**Improved Customer Service**

According to a vice president of one of AHA's private management companies, pleasing public housing residents is of critical importance. A regional property manager at another private management company stated that private firms focus on customer satisfaction. For example, that company requires its property managers to contact three residents each week to obtain their comments.

The curb appeal of the developments improved as a result of private management, according to AHA officials. Private management companies installed fencing and gating at many of the properties and landscaped the properties. AHA officials also believe that the developments' day-to-day physical maintenance improved under private management, as evidenced by decreases in both the backlog of work orders and in the time needed to complete them. An elected resident leader at one of the privately managed developments told us that maintenance requests are filled more quickly under private management. However, a resident leader at another

development said the quality of maintenance is about the same under both private and housing authority management.

AHA officials also believe that services for residents improved under private management. One of the private management companies, for example, provides a training program to teach residents construction and business skills. That company also trains residents in interviewing skills. Another private management company implemented a welfare-to-work program at one of its properties. More than 100 residents have graduated from this program and most are still employed, according to one of the company's senior managers. AHA's Deputy Executive Director for Housing Operations pointed out that each private management company has a resident services department or at least a strong resident services coordinator. When resident services are decentralized, service coordinators can focus on the needs at individual properties.

#### Decentralized Management

As part of its site-based management approach, AHA placed a portion of its public housing stock under private management to achieve more efficient operations. According to AHA's Deputy Executive Director for Housing Operations, centralized management was not working. Because AHA could not effectively manage 42 properties from a central location, services were not being provided to the residents.

#### Monitoring of Contractors' Performance

AHA believes that it gives its private management companies as much flexibility as possible in providing management services within all applicable HUD regulations. As agreed with HUD, AHA included performance measures in its private management contracts. Management companies that meet agreed-upon performance goals may receive a performance bonus over and above their monthly management fee. However, management companies are also subject to penalties for not meeting performance standards. To monitor contractors' performance, AHA officials review monthly reports submitted by the private management companies. According to AHA's Deputy Executive Director for Housing Operations, the authority is moving towards an automated reporting system that will tie into its central computer. Site visits, which occur at least monthly, are also part of AHA's monitoring activities.

#### Residents' Fears of Change

According to AHA officials, residents initially feared the idea of private management. Many believed that the rules would change, rents would increase, and tenants would be evicted. AHA recognized that these fears would present an obstacle to the effective implementation of private management and took several measures to mitigate the fears. For

example, AHA explained that the goal of private management was to provide better services to the residents. Furthermore, AHA would still own the properties, and the management companies would be subject to the same federal public housing requirements. Finally, before procuring private management, AHA transported some resident leaders to Dade County, Florida, to tour privately managed public housing developments and talk with local resident leaders.

AHA officials believe that the majority of the residents now have a favorable opinion of private management and want to retain private management for their developments. In fact, AHA officials told us that some residents are now concerned that they might lose their private management company. We spoke with the resident leaders of two privately managed developments. One of the leaders said that residents were generally pleased with private management. According to that resident leader, before private management one never knew when or if AHA would cut the grass in front of one's unit. Now, the grass is cut on schedule and never gets knee-high as it did before. The other resident leader, however, did not notice a difference when private management took over.

### Concerns About Displacing Housing Authority Personnel

AHA achieved a smooth conversion to private management, according to AHA officials, because it planned ahead for the change. AHA reduced its staff by 125 people when it switched to private management. However, AHA encouraged the private companies to hire these staff if they met the companies' pre-employment requirements. More than 2 years later, about 75 percent of the former-AHA staff were still employed by the private management companies. AHA directed the private companies hiring AHA employees to recognize and honor each employee's years of service in determining eligibility and benefit levels under the companies' group insurance and leave accrual plans. Furthermore, all staff who took jobs with the private management companies were eligible to reapply to AHA within 1 year; however, according to AHA officials, few people took advantage of this offer. According to a senior official of one of AHA's private management companies, the company hired all housing authority employees at the development who passed the drug and background checks. Once hired, the employees had to meet the company's work standards.

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### HUD's Views on AHA's Experience With Private Management

Although AHA has been using private management for over 2 years, HUD has not reviewed AHA's experience and could not provide us with detailed comments on it. Public housing officials at the Georgia field office did tell

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us, however, that they believe the curb appeal of the developments has improved. In addition, HUD staff saw improvements in rent collections.

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## Lessons Learned

The following describes the lessons learned by AHA officials involved in the private management effort.

- Educating residents on a continual basis about the goal of private management is very important.
- Hiring local private management companies with experience in public housing is advantageous because the companies need time to learn public housing regulations.
- AHA would recommend private management to other large housing agencies, especially those with centralized operations. A partnership with private management can promote effective and efficient management of the public housing stock.

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## District of Columbia Housing Authority

The District of Columbia Housing Authority (DCHA), under the management of a court receiver since May 1995, has placed 12 of its 56 developments under private management. These 12 properties (5 for families, 4 for the elderly, and 3 for both families and the elderly) account for about 22 percent of the District's 11,338 public housing units. According to the receiver, these properties include slightly more distressed than nondistressed developments. With some exceptions, the privately managed companies have been effective in reversing physical and financial decline at the properties by implementing basic maintenance and financial systems and controls. But DCHA officials do not believe the private firms operate more economically than in-house staff. Instead, they believe that under a recently decentralized management structure and a new pay-for-performance plan, in-house property managers can operate at or below the cost of private management companies, which receive an additional management fee. Meanwhile, the private management companies believe they could operate more economically and manage more effectively if they could control enough funding for capital and support services to meet the needs of the properties they manage.

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## Background

Created by court order in May 1995, DCHA replaced the District of Columbia Department of Public and Assisted Housing, which had been on HUD's list of troubled housing authorities since January 1979. By order of the District of Columbia Superior Court, the receiver is solely responsible

and accountable to the court rather than the city government and has authority over all of the agency's operations.

When the court ordered the takeover, the former housing authority had a management performance score of 38 out of 100 points, well below the 60-point standard for passing. Twenty percent of the units were vacant, modernization funds were not being spent, and a number of housing officials had been indicted or arrested. According to the receiver, the failing score reflected a housing authority that was "top heavy, inadequately skilled, and fundamentally incapable of measurable production." The score for fiscal year 1997 was 67. To obtain its passing score for 1997, DCHA made significant improvements in its modernization work, housing inspections, and operating reserve level, but it lost points for delays in completing maintenance work orders and collecting rent. For fiscal year 1998, DCHA raised its score to 79, failing only in the uncollected rent category. By court order, if the score for fiscal year 1999 remains over 70 percent, the housing authority will be returned to local control over a 6-month period, and the receivership will then be terminated.

DCHA was reorganized in October 1998. The Department was divided into three regions, each headed by a regional administrator responsible for a workplan containing objectives and performance standards for both the region and each development within the region.

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### **DCHA's Experience With Private Management Companies**

The receiver told us that he took over the housing authority in the summer of 1995, intending to turn the management of most of the District's housing developments over to private companies. He said, however, that he has since changed his mind. His workplan, updated as of January 1999, reports that the housing authority has "achieved an appropriate balance between in-house and private management." He said he no longer plans to privatize beyond the 12 developments already under contract because he believes that (1) qualified in-house staff can manage as efficiently and effectively as the private sector and (2) the better private firms in the area do not have the capacity to take on more work.

The receiver does not doubt that the private firms have played a part in the improved performance scores. He said the private firms have been very efficient in increasing rent collections, reducing the time to prepare a vacated housing unit for occupancy (unit turnaround time), making repairs, and making properties more energy-efficient. He also believes that private firms have an advantage in that they do not have to deal with

unions or government bureaucracy. But he added that he was uncertain whether the savings accrued were sufficient to offset the management fees paid to the private firms to manage the developments. The receiver also believes that the private firms under performance-based contracts are outperforming those without performance standards. He maintained that the use of performance standards would similarly enhance the productivity of in-house staff.

In February 1999, the receiver announced a pay-for-performance agreement tying the pay increases of all housing authority staff to their success in meeting predetermined indicators in five areas: occupancy, rent collection, unit turnaround, work order closeouts, and employee attendance. Under this agreement, which resembles a corporate profit-sharing plan, housing authority employees will receive salary increases based on agencywide scores for each of the five indicators. The raises will be funded by the additional revenue the authority will take in if the lower vacancy rate, higher rent collection, and other performance goals are met. The receiver also believes DCHA's new in-house staff can make the performance-based system work. For example, 14 of the 29 manager positions turned over—primarily through terminations, demotions, and resignations—during the 17 months from July 1997 through November 1998. One of the three DCHA regional managers who report to the receiver said that these personnel changes were part of an agencywide effort to eliminate patronage, incompetence, and, in some cases, salary payments to employees who never came to work.

The management companies agree with the receiver's view that their firms have been very efficient, but they also believe that they are saving more than the cost of their management fees. For example, one firm noted that in the first few weeks of its contract, it eliminated a backlog of 1,600 work orders, barred 45 nonresidents from the property, and returned accuracy to the rent rolls. Another firm told us that it evicted over 70 residents for nonpayment of rent within its first 60 days and began documenting rent collections. According to the regional manager for that housing development, his management company can now sue to collect rent that has been unpaid since the date that his firm began managing the development. However, the company cannot press for unpaid rent from prior years because the housing authority's rent records were not kept well enough to prove nonpayment. A third management company said that it took over a property whose annual operating budget had been \$290,000 and reduced it by over \$80,000 during the first year, a reduction of almost 30 percent. Management company officials point to property

improvements that they made at year-end using funds that they saved by reducing their costs. These improvements included new carpeting and a fish tank in the lobby of a building, new tables and chairs in the recreation room, and a new rooftop card room.

While DCHA officials acknowledge these savings and the many management improvements that private management staff have incorporated at the properties they manage, one regional manager said that, on balance, he believes private management is more costly than in-house management. He said that private firms' balance sheets can be deceiving because the firms classify some cost items as "extraordinary" in the accounting sense, meaning that they are not included in the total cost figure. This classification makes the private firms' costs of operation seem lower at first glance. For example, a private management firm might classify an unusually large expense to repair a housing unit after a tenant's departure as extraordinary, when it was simply higher than average. He believes that the frequency and magnitude of the differences between the accounting entries by private firms and by DCHA argue against the validity of the private firms' claims of savings.

Officials at two of the private companies managing DCHA properties told us that if their companies were given control over all funding for the property—including the capital budget, the modernization funds, and the funds for support services programs—they could show that their savings would exceed their management fee. One added that his firm is performing as an extension of DCHA, acting as a maintenance operation and rent collection agency rather than as a proactive private management company. He believes that his firm could show significant savings if DCHA allowed it to manage all aspects of the properties. In response, a DCHA official stated that the authority does give each housing development its own capital budget and could assign each development a total capital plus operating budget at the beginning of the year. However, the authority likes to be able to move funds among developments within the year, as needs change. The official added that DCHA would consider requests for access to the capital budget on a case-by-case basis and would also consider embarking on a pilot program to explore the usefulness and practicality of assigning all funds to a privately managed development.

The management companies also disagree with the receiver's position on the management companies' capacity. For example, an official at a national firm interested in managing properties for DCHA said that the firm could manage a number of the housing authority's properties if given

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adequate time to plan for expansion. An official at a firm that already manages DCHA properties said his firm is ready today to take on many more DCHA properties.

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## **Obstacles to Privatizing Public Housing**

Several obstacles to effective private management at DCHA still exist. First, DCHA has not effectively implemented HUD's requirement that all housing authorities with more than 500 housing units adopt project-based or cost-centered accounting. Second, some management companies believe that they have not been treated fairly or have not been given as much responsibility as they could successfully accept.

The receiver has decentralized the housing authority's organization by creating three autonomous regional housing agencies, thereby producing friendly competition among the regions and among in-house managers and private management companies within the regions. Moreover, DCHA has regionalized the asset management function and developed separate budgets for each development. However, the receiver does not expect full project-based accounting until after 2000. Without accurate financial performance data for each development, asset managers cannot perform site-by-site financial analyses, including breakdowns of the operating resources spent for individual properties and for central office overhead.

According to officials of private management companies under contract to DCHA, some of DCHA's managers see them as a threat and have tried to undermine their companies' efforts. For example, one firm believes it was unfairly hit with a surprise audit, without being given the scoring criteria ahead of time. Employees at another firm believe they have many insights to offer but are not given the opportunity to share their ideas with DCHA's in-house managers.

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## **DCHA's Experiences With Hiring Private Contractors**

At developments that are managed in-house, DCHA contracts with private firms for very few individual functions. Management officials believe that DCHA now has the resources and ability to manage most housing development operations. For example, DCHA has expanded its in-house police force, which in November 1988 was given authority to operate citywide. Previously, housing authority officers had jurisdiction only on DCHA property or within 300 yards of a public housing site. In addition, routine and preventive maintenance programs are being developed for each of the three new regions, and the receiver is confident that the in-house staff will stay ahead of maintenance problems. Outside contracts

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are limited to legal services, such as processing evictions; trash removal; and vehicle maintenance.

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## **HUD's Role in the Privatization of Public Housing at DCHA**

HUD has not taken an active role in DCHA's private management activities since the court receiver took over. Before that time, HUD reviewed all requests for proposals and was supportive of private management as an option for improving DCHA's poor performance. According to the Director of Public Housing in HUD's District of Columbia Office, since the receiver arrived, the Department's role has been limited to dealing with legitimate complaints about private management, such as helping to resolve a stalemate over the final pay for a private firm whose contract was terminated. He said he tells his staff to take a neutral position on private management. Above all, he said, HUD wants to ensure that the housing authority is managed effectively, and whether it is managed by private companies or by in-house staff is not important. But if a decision is made to switch one way or the other, the housing authority should document the expected improvements and/or savings.

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## **Chicago Housing Authority**

According to the Chicago Housing Authority (CHA), it has derived qualitative benefits from placing nearly half of its public housing units under private management. Private management at CHA has tangibly improved living conditions at some of the developments and made operations more effective. Although CHA officials cannot quantify dollar savings from using private management, they believe it has allowed them to streamline their operations and reduce overhead. CHA and the management companies it contracts with are still learning ways to manage public housing more efficiently. As this learning process continues, CHA plans to transfer more of the property management responsibilities to the private companies—something the management companies say will help them manage the properties more effectively.

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## **Background**

The state of Illinois established the Chicago Housing Authority in 1937, and it is the second largest public housing agency in the continental United States.<sup>2</sup> Besides federal low-income housing programs, CHA administers several parallel programs that are funded and regulated by the state of Illinois and the city of Chicago. The authority not only manages seven city-state public housing developments but also operates the Section

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<sup>2</sup>Only the New York Housing Authority and the Puerto Rico Housing Authority have larger numbers of low-income housing units.

8 substantial rehabilitation program funded by the city and the state. Under this program, the authority serves as a landlord to provide housing to qualified applicants. The authority currently manages about 35,000 public housing units, located throughout the city of Chicago, for approximately 90,000 low-income residents. Compared to other public housing agencies, CHA is one of the most difficult and challenging public housing agencies to operate because of its large concentration of severely distressed high-rise developments.

CHA has had long-standing management problems in virtually all aspects of its operations. These include problems with housing management, maintenance of the housing stock, and financial management. Frequent turnover in CHA's management has contributed to CHA's operational problems and has made it difficult to implement needed management improvements. Because of these problems, HUD initiated a takeover of CHA in May 1995.

CHA's Department of Private Management monitors and supervises the private management firms that manage CHA properties. CHA currently has 16 management firms under contract to manage approximately 17,000 public housing units in 45 developments—about half of all its 35,000 public housing units. CHA operates the second largest private management program in the nation—only the Puerto Rico Housing Authority has a larger program. CHA first introduced private management in the 1980s, after a consent decree required CHA to build scattered-site housing. CHA expanded its private management program to a limited number of socially distressed high-rise family properties in the late 1980s. In 1995, CHA's private management program expanded significantly when the authority sought additional private management companies for scattered-site housing and for senior and family properties. In 1998, CHA again sought additional contractors to manage more of its portfolio.

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## **CHA's Experience With Private Management Companies**

CHA officials believe that their use of private management companies has, on balance, benefited the residents of public housing and the housing authority. Although CHA's expectations at some of the privately managed developments have not been met, living conditions at some of the developments have improved, as have CHA's operations. Although CHA is not able to measure the quantitative benefits of private management, the asset manager at the authority believes that operating costs are lower. And, according to the private management companies, costs could be even lower if they were given greater operating and financial responsibilities.

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**CHA's Selection and Monitoring  
Philosophy**

In implementing private management, CHA has tried to match the skills and experiences of management companies with the needs of CHA's housing developments. Under that philosophy, CHA chose management companies on the basis of their track record at other properties, their level of experience in a particular type of housing (senior, family, or scattered-site), and their experience and familiarity with the local market. For example, CHA matched a company with a very good track record in senior housing but no experience in the Chicago market with a small number of senior developments in good condition. CHA awarded another company the contracts to manage several developments that included housing stock in the worst physical condition because this firm had several years of experience with the Chicago market and with public housing.

CHA monitors the performance of the management companies through site visits and monthly reports that include financial and narrative information on the operations of the buildings. Although CHA's formal policy is to conduct quarterly site visits, in practice such visits have typically occurred each month. According to CHA's asset manager, monthly monitoring helps the companies prepare for the more extensive quarterly site visits.

**Performance of Private  
Managers Mixed, but Results  
Generally Positive**

According to CHA officials, the performance of the 16 private management companies has been mixed. Some have performed very well and brought improvements to their housing units, while others have not performed as well. The better performers have improved the living conditions of the developments that they manage. For example, according to CHA, some private companies have increased the curb appeal and therefore the marketability of their buildings. In some cases, they have increased residents' satisfaction and provided better social services. The two resident representatives we spoke with agreed that the residents are generally happier with private management and that living conditions have improved with the management change. For example, one management company built a laundry room for the residents, who previously had to travel 10 blocks to the closest laundromat.

The authority has also benefited from the use of private management. According to CHA's asset manager, she can identify instances in which the authority's operations became more businesslike after private management began. Private management has forced CHA to keep more accurate information on its properties so that it can support the management companies—information such as current occupancy and rent collection rates. According to the asset manager, a compatible computer

system is necessary for the housing authority and the management companies to have current information on all of the properties. In addition, some degree of competition now exists between CHA's in-house development managers and their private counterparts. This competition has led to better property management among the CHA-managed properties, according to CHA's asset manager.

Although CHA officials agree that private management has qualitative benefits, they cannot quantify the cost savings they have realized from its use. And CHA will not be able to compare the costs of private and in-house management until it can more precisely determine its own management costs. CHA is moving toward project-based budgeting, which will provide the authority with baseline information on the costs of managing its public housing developments, but it has not progressed far enough to determine baseline costs. Currently, CHA has begun project-based budgeting at 16 developments, according to the asset manager. She believes that restructuring the budgets of all of the authority's developments will take time. Even though direct cost-savings are not quantifiable at this time, CHA has reduced its overhead costs (for salaries and employee benefits) by reducing its workforce through contracting with private companies to manage its developments.

### Management Companies Seeking More Responsibility

Representatives of the management companies reported that they are able to manage public housing more effectively than CHA and at a lower cost, but they are constrained by CHA's control over funding and over some services. The management companies expressed the desire to control their developments' share of CHA's federal grant for modernizing public housing properties. They believe they could accomplish repairs and renovations more quickly, cheaply, and effectively than CHA.

Some of the representatives also believe they could operate more efficiently if they had control over other aspects of the properties' management, such as evictions. For example, some of the management companies would like to be able to evict residents for reasons other than nonpayment of rent, such as drug or gang-related activity. One private manager wanted control over such evictions so that he could remove problem residents more quickly than CHA has been able to do. However, according to CHA's asset manager, the private companies would probably not be able to handle these evictions faster than CHA. The delays occur because of legal requirements and procedures that provide the residents with several days of notice throughout the eviction process.

Currently, a private management company's duties include (1) collecting rent and maintaining rental collection records that conform to CHA's regulations; (2) recertifying each resident's income annually; (3) inspecting all units annually; (4) executing leases; (5) purchasing and contracting for needed services, supplies, materials, and equipment; (6) managing the property so as to maximize residents' safety and security; (7) working with the Local Advisory Council and other residents' organizations; and (8) completing a management plan describing the training and employment opportunities the company will provide for CHA residents.

#### CHA's Plans for Private Management

CHA intends to keep the number of units it has under private management at about the current level but plans to give the management companies more autonomy in running their properties. Because of its ongoing effort to demolish and redevelop high-rise properties, the authority does not plan to increase the number of developments under private management. CHA can operate buildings that are being redeveloped or demolished more easily than a private firm because of the high cost of these activities and the diverse funding sources that are used for demolition or rehabilitation. CHA does, however, plan to devolve more of the responsibility for managing the properties to the private firms and move closer to simply monitoring the management companies. The CHA asset manager believes these steps will reduce in-house labor costs and make CHA's operations more efficient.

#### Obstacles to Privatizing Public Housing

According to CHA officials, there are no serious operational obstacles to privatizing their housing stock. They said, however, that shifting to a new way of doing business with the private management companies involves normal "growing pains," which must be understood and dealt with. Anecdotes illustrating these growing pains follow.

Overcoming CHA's internal bureaucracy. According to one CHA official, when private management began, CHA staff tended to treat the private companies as if they were another department within CHA, providing all the oversight they would normally apply to CHA departments.

Learning how to be a better contract administrator. One official suggested adding specific performance standards to contracts in the future, holding the companies to these standards, and imposing penalties for nonperformance.

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Better defining the respective roles and responsibilities of the housing authority and the private management companies. One management company did not budget for trash collection because it was not aware that it was responsible for providing this service. CHA officials agreed that such confusion could be averted in the future by more carefully specifying the respective roles of CHA and the management companies.

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### **CHA's Experience With Hiring Outside Contractors**

CHA has privatized those activities for which it lacks adequate in-house expertise or needs to obtain better service. For example, CHA sometimes needs outside counsel for specific legal issues. It also contracts with private firms that have the expertise to administer pension plans, workers compensation, and deferred compensation. The benefits of contracting include a lower administrative burden on CHA staff, a wider choice in obtaining needed services, and clearer expectations and responsibilities provided by the contractual relationship, according to CHA officials.

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### **HUD's Role in the Privatization of Public Housing at CHA**

After becoming increasingly concerned about the management problems at CHA, HUD initiated a takeover of the authority on May 31, 1995, appointing a top HUD official to oversee its day-to-day operations. HUD also appointed a five-person advisory board with representation from the city of Chicago, CHA residents, the business community, and the religious community. CHA signed a memorandum of understanding with HUD covering the period from April 1996 through December 1997, the long-term goal of which was to remove CHA from HUD's "troubled list." During this period, CHA expanded its private management program. HUD removed CHA from the troubled list in August 1998, and the authority is scheduled to return to the city's control in 1999.

According to CHA and HUD officials, the local HUD office did not have much direct involvement in CHA's private management, although it did provide some assistance to CHA. The local HUD purchasing office assisted CHA in preparing its first request for qualifications for the private management companies. For the management companies' staff, HUD also provided training in the area of federal regulations and reporting requirements. The Director for Public Housing in HUD's local field office expects that her office will have a greater role in monitoring the private management companies in the future. Now that CHA is off of the troubled list, local HUD officials will begin to work more closely with CHA. They will begin conducting site visits at the public housing developments and will eventually have enough information on the private companies to make

some comparisons. (During the years that HUD took over CHA, the local HUD office did not have much contact with CHA because HUD headquarters officials were handling CHA's operations.) According to the Director for Public Housing, HUD's role should be to adequately oversee the private management companies and ensure that penalties for poor performance are included in their contracts.

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## Lessons Learned

Through its initial experience with private management, CHA has learned how to deal more effectively with the private companies and has adjusted to its role with respect to them. The following are lessons learned by CHA officials involved in the privatization effort. These lessons have been or will be incorporated in changes to CHA's private management program:

- Contracts with the private management companies need to specify their roles and responsibilities and should include performance incentives.
- Housing authorities need to monitor the management companies rather than try to directly control them.
- The management companies need to study the properties before they prepare their budgets to learn of preexisting conditions they will need to address. For example, the companies managing very poor housing need to fully assess the extent of the repairs they will need to make over time and to factor the costs of these repairs into their budgets.
- The management companies need to have a good relationship with the leaders of the resident groups, particularly in Chicago, where these groups are very strong.
- A compatible computer system that gives the housing authority and all the management companies access to the same information on the properties is a must.

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## Boston Housing Authority

About one quarter of the Boston Housing Authority's (BHA) 12,600 public housing units are under private management. BHA has been involved in private management since the early 1970s. BHA officials believe private management has helped to relieve the strain on the authority's overextended resources and has had a positive competitive influence on BHA employees. BHA officials cautioned that a great deal of monitoring is needed to obtain optimal results and that not all of BHA's experiences with private management have been successful.

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## Background

As of January 1, 1999, BHA administered 12,600 units of public housing in 57 developments.<sup>3</sup> BHA also administered 68 units at scattered sites. BHA's first experience with private management occurred in 1973, when a tenant management corporation assumed responsibility for managing Boston's largest public housing development. BHA's next experience with private management occurred in 1980, when poor performance placed BHA in receiver status. At that time, BHA entered into a three-party contract with a management company and a resident association to manage Commonwealth—a development for families. The contract is often cited as a model of a successful private management partnership, although the three parties do not always agree on capital funding priorities. All parties are involved in major decisions, and the resident association can terminate the private management contract if it is not satisfied.

In 1994, the mayor of Boston created a special task force to make recommendations to improve the management of BHA's housing developments for the elderly and disabled. These developments had a history of poor management. At the mayor's request, BHA contracted with private firms to manage 11 developments—about one-third its properties for the elderly. BHA could then focus its energy and work on a smaller number of developments, giving its managers a smaller ratio of units to staff. BHA also reorganized its properties for the elderly and disabled into three management clusters (two in-house and one private), each headed by a senior manager, to provide additional direction and support on a day-to-day basis. Currently, BHA has 3,456 units in 17 developments under private management.

In January 1999, BHA issued its "BHA 2001 Report"—the result of a yearlong effort by hundreds of BHA employees. This report represents BHA's rethinking of how the organization can best fulfill its mission. It is also part of a comprehensive plan for improving BHA from top to bottom. Early in the process, senior BHA managers developed seven goals for the authority:

- to improve its personnel and operational systems;
- to improve its management and maintenance systems;
- to improve its management information and technology systems;
- to reorganize and strengthen its comprehensive modernization and redevelopment functions;
- to decentralize BHA in accordance with the real estate industry's practices and standards;

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<sup>3</sup>Of the 12,600 public housing units that BHA operates under its contract with HUD, 1,332 had been approved for demolition by HUD as of Jan. 1, 1999.

- to improve BHA's financial planning initiative and seek new related resources; and
- to improve customer service and encourage more user-friendly behavior on the part of staff.

BHA established six task forces for each of the goals except decentralization. Each task force was to study and make recommendations to BHA on how it could best achieve the task force's assigned goal by the end of 2001. Since it was assumed that the task forces would identify solutions that depended on decentralization, senior managers believed that decentralization realistically could not be addressed until the task forces had completed their recommendations. The task forces presented their findings to senior management in September 1998. The next step in the BHA 2001 process will be to review and approve the BHA 2001 Report and develop an implementation strategy that will be completed by December 31, 2001.

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## **BHA's Experiences With Private Management Companies**

BHA's experience with private management has generally been positive. A BHA official stated that private management helped BHA achieve authoritywide improvements. The interaction of private and BHA management improved the organization, increasing communication and reducing isolation. For instance, BHA officials believe that the contact with private management led to a more service-oriented approach at the in-house developments, resulting in performance gains similar to those associated with private management. According to resident leaders at BHA's privately managed developments, most residents prefer private management and are pleased with the improvements in customer service it has brought. However, BHA experienced problems with three of its private management companies. At developments managed by these companies, day-to-day physical maintenance, services for residents, and residents' satisfaction declined under private management. Because of these and other problems, BHA had to take back the management of these developments.

## **Improved Financial Management and Operating Efficiency**

According to BHA officials, in general, neither the authority's financial management nor its operating costs changed as a result of using private management. However, BHA and private management company officials said that private management did lower some personnel and maintenance costs. At most of the privately managed developments, operating efficiency improved, as demonstrated by reduced vacancy rates and more timely rent collection. For instance, in April 1995, the vacancy rate in

developments for the elderly and disabled was 8 percent, according BHA officials. In October 1998, the vacancy rate had dropped to 3 percent. BHA officials attribute a portion of this reduction to private management.

According to BHA officials, private management companies excel at improving the curb appeal of public housing properties. In addition, according to BHA officials, private management companies can perform many repairs more efficiently and economically than in-house maintenance staff. For example, the officials said, a private firm can send one maintenance employee to make a simple repair, such as mend a broken pipe in a wall; however, labor agreements require that the housing authority use several skilled tradespeople for relatively minor repairs. In addition, BHA officials noted that the backlog for BHA-managed properties is about 2 weeks while the backlog for privately managed properties is a week or less. The officials attributed this difference to the flexibility of maintenance staff and the absence of union labor at the private management companies. However, to increase the flexibility and responsiveness of its maintenance staff, BHA implemented a new job description for mechanics. Under this description, people can work in a variety of trades, performing a variety of neutral activities that do not require licenses and are not highly specialized. BHA has implemented this mechanics program at all in-house management clusters.

#### Private-Sector Business Practices

BHA officials pointed out the benefits of competing with private-sector managers. For example, after noting the positive impact of improved curb appeal at its privately managed properties, BHA improved the curb appeal at the properties it manages in-house. BHA officials also began inviting private managers to their management retreats to facilitate the sharing of management practices. In addition, BHA is changing its maintenance program to focus on prevention rather than respond to crises.

#### Cost-Effective Size

BHA eased its large workload by using private managers for a portion of the developments it operates for the elderly and disabled. This step reduced the typical workload of BHA's site managers to three developments, a level of responsibility that is more in line with private-sector practices. Previously, the site managers at Boston's housing developments for the elderly were responsible for four to seven developments. Because of this large workload, according to BHA officials, the site managers had time for collecting rents and providing basic maintenance but not for providing services and outreach to tenants.

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**Decentralized Management**

BHA historically has been centralized, according to a BHA official. However, as noted, the organization is moving toward decentralization. A major mandate of the mayor's task force was to move BHA from a centralized to a development-based management model. BHA split its elderly and family housing portfolios and placed a portion of each under private management. By decentralizing management, BHA was able to devolve responsibility and accountability for individual developments so that managers could focus on analyzing the physical, structural, and marketing needs of their housing portfolios. In addition, the use of private property managers has instilled competition, and exchanges between private and in-house managers have enhanced performance throughout entire agencies. As part of BHA 2001, one task force proposed establishing site-based programs to reduce vacancy rates and prepare units for new residents, collect rents, and fill work orders more quickly. Locating services as close as possible to the users is an essential step in fulfilling BHA's mission.

**Monitoring of Contractors' Performance**

BHA requires its private management companies to submit periodic management and financial reports for their sites.

**Residents' Fears of Change**

BHA included the residents when it reviewed the qualifications of companies bidding on its private management contracts. According to resident leaders at BHA's privately managed developments, most of the residents now prefer private management and are pleased with the additional social services and improved living conditions provided by the private management companies.

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**HUD's Views on BHA's Private Management Experience**

According to a public housing official in HUD's Massachusetts office, HUD supports efficient and effective management, regardless of whether that management is provided by the housing authority or a private management company. The HUD officials were not aware of any current problems with BHA's private management activities. To monitor these activities, HUD reviews BHA's PHMAP reports, which contain scores for each management company on the functions it provides. BHA officials noted that HUD did not play a role in its private management activities. BHA preferred this hand-off approach taken by HUD.

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**Lessons Learned**

The following describes the lessons learned by BHA officials in the private management effort:

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**Appendix III  
Very Large Housing Authorities'  
Experiences With Private Management**

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Housing authorities need to clearly specify performance expectations for their private management companies. The authorities can then monitor the performance of the management companies against a clear set of expectations.

Housing authorities need to convince residents of the need for and the benefits of private management. Authorities also need to involve residents in implementation efforts.

Site-based budgeting is essential to meeting BHA 2001 goals. Site-based budgeting makes property managers more responsible and more creative in their activities.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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