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## JACK KEMP'S "PERESTROIKA": A CHOICE PLAN FOR PUBLIC HOUSING TENANTS

### INTRODUCTION

While the former Soviet Union and Eastern European countries busily are trying to introduce market incentives into their housing systems, residents of America's public housing projects continue to live under stifling bureaucracy and perverse economic incentives. These Americans have little or no incentive to find work, form intact families, or move to better neighborhoods. In too many instances, families find themselves trapped in housing projects where few people, of any income level, would want to live.

Department of Housing and Urban Development (HUD) Secretary Jack Kemp last December unveiled a proposal intended to help public housing tenants overturn some of this dispiriting system. Kemp calls his new program "Perestroika." The Russian word *perestroika* means "restructuring." Frequently invoked by former Soviet President Mikhail Gorbachev in his effort to revamp the ailing Soviet economy, Gorbachev's perestroika proved to be far more rhetoric than reality. He found himself battling—unsuccessfully—a huge, entrenched government bureaucracy controlling the availability of virtually all goods and services. In applying the concept to American conditions, Kemp specifically takes aim at the public housing bureaucracy.

**Chance for Tenants.** Kemp's Perestroika plan was introduced by George Bush in his proposed fiscal 1993 budget. The plan would give public housing tenants a chance to replace public housing authorities (PHAs) as managers and owners of their respective projects. With a proposed budget authorization of \$373.1 million for fiscal 1993, all of it financed out of existing HUD programs, the new program would complement Kemp's Homeownership and Opportunity for People

Everywhere (HOPE) program, enacted in 1990 as part of the National Affordable Housing Act.

The public housing program is becoming expensive and unworkable. Budgeted at a record \$6 billion for the current fiscal year, with \$5.25 billion going to support the operation and modernization of existing projects, a good many housing authorities, especially in large cities, have myriad troubles. Drug use, violent crime, vandalism, and maintenance breakdowns characterize all too many projects. PHAs often aid this process through indifference, corruption, and ineptitude in their management.

Consider the following:

- X Detroit's public housing projects have a cumulative vacancy rate of 44 percent.**
- X Past due rents in Washington, D.C.'s projects outnumber present due rents by a dollar figure of almost four-to-one.**
- X Newark's public housing system has more than double the number of maintenance employees it actually needs, despite the fact that it has at least 22 completely vacant high-rise buildings.**

Perestroika is one solution to these breakdowns in the operation of housing projects. The program would grant tenants of housing authorities on HUD's list of "troubled" authorities a chance to vote in new managers or owners. Only authorities with at least 250 apartments would be affected by the program. Some 23 authorities, encompassing 18 percent of the total public housing stock, would qualify under this program in fiscal 1993.

The Kemp proposal has three components:

- 1) "Choice in Management,"** which would give tenants the right to vote in new managers of their projects;
- 2) "Choice in Ownership,"** which would give tenants the right to vote in themselves, another nonprofit group, or a public agency as new owners of their projects; and
- 3) "Take the Boards Off,"** which would transfer ownership of vacant projects or project sections to tenant groups or state/local agencies.

The political battle for housing perestroika is certain to be uphill. The liberal-controlled Congress, heavily allied with various public housing organizations, can be counted upon to resist. They know that the very idea is a threat to their business-as-usual approaches that have brought the public housing program into so much disarray.

This is why it is essential for Bush fully to back Kemp. Said Bush in his recent State of the Union address: "We must empower the poor with the pride that comes from owning a house, getting a job, being a part of things." Perestroika gives Bush the opportunity to put these noble words into action.

## A RECORD OF MISMANAGEMENT

The recent performance of many public housing authorities is a scandalous catalog of waste, fraud, and mismanagement. The hard evidence for this comes from HUD's internal audits, and from a report released last September by the National Center for Neighborhood Enterprise (NCNE), a Washington, D.C.-based research organization specializing in inner-city issues, which heavily relied on these audits. The NCNE report is especially damning, concluding that public housing management frequently suffers from "shocking ineptitude and outright abuses."<sup>3</sup>

These reviews of America's public housing authorities reveal several recurrent weaknesses:<sup>4</sup>

**Padded payrolls.** Troubled housing authorities often have more employees on their payrolls than needed. The extra "workers" draw paychecks, courtesy of the taxpayer, but do little or nothing to earn them. During fiscal years 1989 to 1991, for instance, 22 of the 23 troubled housing authorities were overstaffed with administrative employees, and 19 of the 23 were overstaffed with maintenance employees. The Cuyahoga Metropolitan (Cleveland), Kansas City (Missouri), Newark (New Jersey), Springfield (Illinois), Washington, D.C., and Virgin Islands PHAs averaged more than double the number of expected administrative employees. Newark's program has 106 percent the number of maintenance employees that HUD deems appropriate. Yet administration and maintenance still were neglected or inadequate.

**Uncollected rents.** Rent delinquency is a habitual problem in troubled public housing authorities. In 22 of the 23 troubled authorities, audits find that uncollected rent constitutes at least 15 percent of all rents due.<sup>5</sup> In the Chester (Pennsylvania), Philadelphia, and Washington, D.C. PHAs, the cumulative backlog of uncollected rents is 374 percent, 269 percent, and 396 percent, respectively, of the total rent due for each month. Few landlords in the private market could survive long with such a pattern of rent skipping.

**High vacancy rates.** HUD has set 3 percent as the acceptable maximum vacancy rate in calculating operating subsidies for a PHA; it considers anything higher "excessive." Yet the cumulative rate for the 23 troubled authorities is 14 percent, almost five times this standard. These PHAs account for over 36,000 vacant units.<sup>6</sup> The Detroit, East St. Louis, and Newark housing

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3 *The Silent Scandal: Management Abuses in Public Housing* (Washington, D.C.: National Center for Neighborhood Enterprise, 1991), p. i.

4 Unless otherwise indicated, all figures here taken from the fiscal 1993 budget document, *Expanding the Opportunities for Empowerment: New Choices for Residents* (Washington, D.C.: U.S. Department of Housing and Urban Development, 1992).

5 The one exception was the East St. Louis Housing Authority.

6 About 104,000 units in the public housing system are vacant. See *The Silent Scandal*, p. 7.

patching of walls and floors in a project before the pipes behind and beneath were repaired; and the repainting of a building just prior to its demolition.

The Washington, D.C. housing authority has had ten directors since 1980. Many admit the existence of severe problems, yet claim to be powerless to stop them. Former director Alphonso Jackson, for instance, complained in 1987 that he had plumbers on the payroll "who knew nothing about plumbing" and engineers who were "creating havoc in our boiler rooms." The current director, Ray Price, observes that project managers often hire friends and relatives over better-qualified applicants for maintenance jobs.<sup>12</sup>

Washington's system is but one example of an almost complete breakdown of responsible tenancy and management. Similar stories abound in other troubled authorities.<sup>13</sup> These massive management problems do not happen by chance, but because of the very nature of project control. This control is in the hands of bureaucrats, who lack the incentives of an owner and in practice are not accountable to tenants, HUD, or indeed anyone. While PHAs are the owners of projects, they care little about maintaining their assets because the federal government provides a stream of subsidies. Thus, many PHA bureaucracies are guided more by local political patronage than by financial prudence.

What is required to make public housing liveable is a dramatic transformation in management and ownership of America's public housing authorities—a shift from the bureaucrats to the tenants they ostensibly serve. Even housing authorities run by honest, competent administrators are limited in their capacity to patrol hallways and project grounds, and to take a personal interest in the well-being of tenants. HUD's version of Perestroika is a frontal assault on business-as-usual management in the most onerous of these fiefdoms.

## HOW HUD'S PERESTROIKA WOULD WORK

Under the HOPE legislation, HUD awards grants of up to \$200,000 on a competitive basis to resident management corporations (RMCs) and resident councils (RCs) in public housing projects. The grants can be used to develop a plan for tenants to manage and eventually to own their projects. Recipients of these funds must match every \$4 of federal money with \$1 of their own.

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- 12 *Ibid.* Washington's directors are not the only ones who have been openly critical of local PHA management. Recently, Jonathan A. Sidel, chairman of the Philadelphia Housing Authority (also on the HUD troubled list), depicted the Authority as "paralyzed by patronage and unable to perform even the simplest tasks of repairing windows or cutting grass at housing developments." Quoted in "HUD (Again) Proves Government Can't Do It Best," *Washington Inquirer*, February 21, 1992, p. 1. For a full analysis, see Matthew Purdy, "HUD Freezes Funding for Southwark," *Philadelphia Inquirer*, February 5, 1992.
- 13 For a graphic description of how decrepit public housing conditions have become in Newark, for example, see P.J. O'Rourke, *Parliament of Whores: A Lone Humorist Attempts to Explain the Entire U.S. Government* (New York: Atlantic Monthly Press, 1991), pp. 123-24. See also Nieves, "Delays Paralyze Newark's Efforts."

Under Kemp's new Perestroika plan, public housing residents in housing authorities that have at least 250 units and that have been designated by HUD as "troubled" for at least three consecutive years would have the chance, on a project by-project basis, either to vote in new managers, vote in new owners, or assume ownership of projects with high vacancy rates. At present, 23 public housing authorities, including those of Boston, Chicago, Detroit, Los Angeles, New Orleans, Newark, and Washington, D.C., fall into this eligible category. These projects contain about 18 percent of America's public housing units. Many of the apartments are in poor condition, and 14 percent are vacant.<sup>14</sup>

Perestroika would extend consumer choice to public housing tenants, where market competition is most needed. It would serve notice on poorly run PHAs that their days are numbered. The plan consists of three components:

### **Component #1: Choice in Management.**

Residents of public housing would be guaranteed the right to choose, through majority vote, new managers of their housing projects. The PHA would retain ownership, but a public, private, or non-profit group could be selected by tenants to take over maintenance, rent collection, and all other management responsibilities. The new management staff would have to demonstrate continually that it could run rental housing because the residents would have the right to fire as well as hire.

### **Component #2: Choice in Ownership.**

Tenants would have the right to assume ownership of the project. Unlike the Choice in Management component, which requires approval by a simple majority among tenants of a project, Choice in Ownership would require approval by two-thirds of affected tenants. Residents could select a tenant management corporation, another non-profit group, or a public agency other than the current PHA to be the new owner. The group would have to be approved by HUD prior to receiving title to ownership. In cases where more than one group applied for ownership, HUD would select the one that it felt could do the best job.

### **Component #3: Take the Boards Off (TBO).**

TBO would transfer ownership of substantially vacant projects, or portions of projects, from the housing authority to one of two types of groups: 1) groups representing tenants who plan to return the buildings for use as habitable public housing; or 2) state and local agencies pledging on behalf of nonprofit housing organizations to expand affordable rental or homeownership opportunities to low-income families and individuals. HUD would issue "transitional" subsidies to

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<sup>14</sup> There were 253,027 units in these projects in 1991. Interestingly enough, almost 25 percent were in Puerto Rico and the Virgin Islands. Excluding projects in these two U.S. possessions, the overall vacancy rate within the troubled housing authorities was 17 percent.

tenants over a three-year period, after which the PHA would be required to give tenants vouchers, or low-income housing "rent stamps," to ensure that families could secure housing for themselves.

The proposed combined budget for Choice in Management and Choice in Ownership is \$100 million, to be used for modernization of buildings. The proposed budget for Take the Boards Off is \$273.1 million, with \$192 million to be used for modernization, and the other \$81.1 million going for 2,500 vouchers. All modernization money would come out of the fiscal 1993 public housing modernization budget. The money for new vouchers would come from the Section 8 voucher program. Up to 5 percent of the funds in each of the programs can be used for technical assistance.

Kemp understands that families who live in poverty, like families who do not, benefit from exercising direct and personal control over their immediate living environment. Without this element of control, creating stable communities is impossible in what are now welfare-dependent, high-crime public-housing projects, unless residents gain some proprietary control over their neighborhoods. To do this, they must be able to determine how their projects will be run.

Giving low-income tenants a financial stake in their housing also lessens their isolation from the rest of American society. Public housing residents under Perestroika would be running real estate enterprises. Officials of the new Russian government understand this better than Washington's liberals. Remarks Elena Kotova, head of the Moscow City Council Economic Policy Commission: "The salvation of housing cannot be distinguished from privatization and private enterprise."<sup>15</sup> Such is precisely the spirit in which Russian perestroika must apply to America's public housing, yet has been missing from most housing policy debate in this country.

## TENANT CONTROL WORKS

Experience shows that with management or ownership in the hands of residents, projects are less subject to bureaucratic rules than projects run and owned by professional housing bureaucrats. Moreover, resident management groups will do things that housing authorities are unable or unwilling to do because they live with the consequences of inaction. Kenilworth-Parkside is a Washington, D.C., project that was turned over to tenant management in 1982, and became in part a resident-owned housing complex in 1990. Says Kimi Gray, the president of the project's resident management corporation: "When my maintenance man doesn't fix the boiler in the winters, he gets cold too."<sup>16</sup>

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15 Quoted in Jack Kemp, "Houses to the People! An Open Letter to Boris Yeltsin," *Policy Review*, Number 59, Winter 1992, pp. 4-5.

16 Quoted in John Scanlon, "People Power in the Projects: How Tenant Management Can Save Public Housing," Heritage Foundation *Backgrounder* No. 758, March 8, 1990, p. 9.

These successes of tenant control of public housing share a common ingredient: when trust is placed in the ability of residents to assume many or all of the tasks previously entrusted to the housing authorities, management improves. Kemp's Perestroika initiative would give tenants the right to manage, or to select managers, in projects where improvement is needed most.

## UNDERSTANDING THE POLITICAL OPPOSITION

The Kemp plan is a prescription for America's ailing public housing system. Yet powerful opposition can be expected. Those with a financial or political stake in the system understandably feel threatened by any attempt by the federal government to demand greater accountability from the PHAs. Typically, they argue that problems in the public housing program are exaggerated and sensationalized, or that these problems, though real, result from inadequate government funding rather than from any inadequacies in the program itself.

According to supporters of the public housing program, the program would be working well, were it not for a lack of money. Ignoring all evidence that the dismal condition of much public housing is due to poor management, and ignoring the fact that the average annual cumulative operating and modernization budget is currently \$3,750 per apartment in the 1.4 million-unit system, they argue that Congress ought to be concerned with how to expand the pie of federal funding, not with how projects are managed or owned.

Those with the greatest stake in the current system are public housing authorities, congressional liberals, and several housing researchers who are called upon by the first two groups to tell them what they want to hear.

The arguments they use are depressingly familiar.

### ✕ Housing authorities.

The public housing authorities employ one of the most powerful lobbies on Capitol Hill. Organizations such as the National Association of Housing and Redevelopment Officials (NAHRO), the Council of Large Public Housing Authorities (CLPHA), and the Public Housing Authorities Directors Association (PHADA), defend the current public housing system, and oppose anything even resembling the Kemp plan. CLPHA executive director Mary Ann Russ, for example, denounces the Perestroika initiatives as "massive, draconian measures that we don't think are justified."<sup>21</sup>

Adds Richard Y. Nelson Jr., executive director of NAHRO: "The demand for public housing is so great that we can't afford to sell a unit and take it off the rent rolls."<sup>22</sup> This statement wrongly assumes that low-income people have no desire

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20 Scanlon, "People Power in the Projects," p. 5.

21 Quoted in Bill McAllister, "Kemp Urges Plebiscites for Projects," *Washington Post*, December 23, 1991.

22 Quoted in Rita McWilliams, "Dream Houses for the Poor," *Governing*, July 1991, p. 57.

to own their home, or that their incomes will never be sufficient to do so, and that it is better for people to be "tended" by a bureaucracy than to make their own housing choices. It is an expression of "liberal plantation" mentality, which views the poor as supplicants rather than potential achievers.

### **X Congressional Liberals**

Liberal Congressmen and their staffs long have opposed changes in the management or ownership of public housing. The tenant management and ownership provisions enacted in the 1987 Housing and Community Development Act, for example, actually had watered down a version of an earlier bill co-sponsored by Kemp, representing his New York district in the House, and District of Columbia Delegate Walter Fauntroy, a Democrat. The Kemp-Fauntroy bill had been passed, but no action was taken by House-Senate conferees.

Opposition to the Perestroika plan may be unrelenting. Key staffers upon whom liberal legislators rely are especially blunt. Frank DeStefano, staff director of the House Banking Subcommittee on Housing and Community Development, is characteristically dismissive. "I don't think there is any prospect," says DeStefano, "for it getting off the ground on the Hill—or anywhere."<sup>23</sup> Adds Bruce Katz, staff director of the Senate Banking Subcommittee on Housing and Urban Affairs: "It's a fundamentally dumb and stupid idea."<sup>24</sup>

Comments like these are dismaying, but hardly surprising. Congress sees more public housing spending as an urgent necessity. Despite the failure of public housing to improve the living conditions of the poor, Congress has forced the Bush Administration to earmark money to build more projects. Despite the Administration's call for some overdue restraint in the fiscal 1993 public housing budget, Congress may yet appropriate even more money than in 1992. Moreover, many in Congress are hostile to any attempt to change the way projects are run. In 1991, for example, the House Budget Committee claimed that selling public housing to tenants would be "misguided."<sup>25</sup>

### **X Housing Researchers**

Congressional and special interest opponents of change are aided by a number of influential housing researchers who argue that resident management and ownership in public housing is doomed to fail. Among the most influential are William Rohe and Michael Stegman, both of the University of North Carolina City and Regional Planning Department. In 1990 Rohe and Stegman completed for HUD a full-scale evaluation of its Public Housing Homeownership Demonstration (PHHD) program.<sup>26</sup> The program was launched in June 1985, and was intended

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23 Quoted in McAllister, "Kemp Urges Plebiscites."

24 Quoted in "Groups See Little Support for 'More of the Same' HUD Budget," *Housing and Development Reporter*, February 17, 1992, p. 760.

25 See Ann Mariano, "Closing the Door on Public Housing?" *Washington Post*, March 6, 1991.

26 William M. Rohe and Michael A. Stegman, *Public Housing Homeownership Demonstration Assessment* (Washington, D.C.: U.S. Department of Housing and Urban Development, June 1990); see also Rohe and



to enable tenants to become homeowners, while allowing PHAs wide latitude in establishing resident homeownership programs.<sup>27</sup> It also served as a prototype for potential large-scale public housing privatization of the sort contemplated in Perestroika.

Rohe and Stegman concluded that the kinds of resident ownership proposals that Kemp has incorporated into both HOPE and Perestroika will not work because selling housing even at a discount to tenants fails to include adequate safeguards against foreclosure; and appeals to tenants with incomes well above those of public housing tenants as a whole. The authors claim that as a result of such deficiencies, only 320 units—one-fourth of HUD's goal—were sold to tenants in the PHHD program.<sup>28</sup>

**Opponents' Omissions.** Yet Stegman and Rohe admit that close to 400 additional home sales were close to completion in the program. Equally significant, the authors fail to address the reality that neither public housing tenants nor taxpayers are well served by the existing public housing program, ignoring PHA mismanagement as a factor in driving up rehabilitation and other costs associated with sales. Finally, they assume that tenant incomes are static, apparently finding it hard to believe that owning a home is the kind of stimulus that spurs a family to improve its economic condition.

If opponents of the plan seem overly concerned about anything, it is the possibility that it might work. Kemp's proposal potentially threatens the jobs of housing authority officials and contractors everywhere. Even more horrifying for some opponents, the plan could trigger a wider assault on bureaucratic organizations that have a strong stake in blocking empowerment initiatives of all varieties.

Opponents of Perestroika can be expected to issue dire warnings about the "disappearance" of low-income housing. What they ignore is that much of this housing already is disappearing, thanks to the inept and often corrupt management by PHAs. It is time to put more control of housing projects into the hands of residents themselves.

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Stegman, *Public Housing Homeownership Demonstration Assessment: Case Studies* (Washington, D.C.: U.S. Department of Housing and Urban Development, June 1990).

27 The program was intended to last 36 months, but the 17 recipient housing authorities typically were still involved in PHHD well after this deadline.

28 See also, Michael A. Stegman, *More Housing, More Fairly: Report of the Twentieth Century Fund Task Force on Affordable Housing* (New York: Twentieth Century Fund Press, 1991), pp. 57-96.

## CONCLUSION

Jack Kemp describes his Perestroika approach as "radical." He is correct. Giving public housing tenants the right to hire and fire their managers and owners represents an abrupt break with the status quo. Ironically, Kemp simply wants to give public housing tenants the choices that Russian President Boris Yeltsin wants to give tenants of state-owned projects in his country.

Aside from being a promising policy initiative, Perestroika would be funded through existing HUD programs, not through new spending authority. In the long run, it would save taxpayers money by freeing these projects of their current management and ownership, and subsequently, their high operating and modernization subsidies.

**Escaping Despair.** Giving residents of public housing greater choice in the running of their projects has worked wherever it has been tried, benefitting the poorest of the poor. It can and ought to work on a much larger scale. If lawmakers are truly on the side of public housing tenants rather than public housing bureaucracies, Congress will see Perestroika as a way for tenants to escape despair.

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