BY DAVID A. SMITH

Summary

TRUTH, PLATO POSITED, is perfection: ideas are more real than things, and the world we see is but a dim and watery reflection of the perfect, crystalline reality. Every object has its Platonic ideal, the one true form from which all its earthly expressions take their nature, and of which every earthy object is merely an imperfect shadow.

Many of us have that vision of the housing authority—a local outpost of the shining city on the hill, a defender of affordability and an expression of political and policy good. We hold to that image even as the real housing authorities we see about us, and the housing stock they own and operate, fall ever farther short. We excuse their performance as isolated, or absolvable, because the reality facing public housing properties and public housing authorities makes it impossible for them to succeed.

My first *JoHCD* article, "*The Ghost of Christmas Yet To Come*," dealt with the systemic and economic breakdown of public housing as we know it; its follow-up, "*The Gordian Knot*," proposed radical change in housing authorities' governance, ownership, and financial structure. Now we examine the core of public-policy functions that justifies their existence in the political space, and by contrast shows what we need to do to transform today's *actual* housing authorities into tomorrow's *essential* housing authorities.

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ESSENTIAL VERSUS TECHNICAL FUNCTIONS

- A function is ***technical*** if it can be performed as well by a purely private third party as by an intrinsically governmental entity. In practice, functions are technical if (a) they require particular known or learnable skills, and (b) performance can be reliably measured after the fact.
- A function is ***essential*** if it is necessary for the organization's mission and not technical. In a public-policy context, essential functions are sometimes also called 'intrinsically governmental.'

Essential and Technical Functions of an Organization

All organizations have many functions that are *necessary*; these can be further divided into technical (functions that can be contracted to a private party without loss of quality) and essential (never to be let out of the organization itself).

For a private company, making money is a necessary function, choosing what business to do is an essential function (owning the decision must reside with the company, not consultants), and accounting for revenue and expense is technical (you hire CPA auditors) and therefore not essential.

A good rule-of-thumb test of essential versus technical functions is this: are there companies who make a profit providing the service on properties they do not control? There are property management, asset management, maintenance, groundskeeping, security, payroll, and accounting companies, all of whom work on a fee-only basis for other entities on properties owned by others. That's a powerful clue.

The business significance of essential versus technical functions is this:

In an interdependent world, where business is extremely competitive, entities are most successful if they concentrate on their essential functions.

Many entities originate as comprehensive companies—they do every single function in-house. Over time, as a business matures, the capacity of service providers rises and the performance standard likewise rises. As that happens, the nimble company finds ways to shed all the technical functions. As they are contracted (outsourced), quality goes up, cost goes down, and as they do, both customer satisfaction and profitability rise.

What Are a Housing Authority's Essential Functions?

A housing authority holds a public trust—to provide quality housing at very low cost to those who are least able to find it in the private marketplace. In essence, they are publicly accountable charitable institutions, receiving public subsidy (via the indirect collection agent of government) and deploying it for public benefit—affordable housing and healthy low-income communities.

THE HOUSING AUTHORITY'S ESSENTIAL FUNCTION

Receive public moneys and disburse them for quality affordable housing according to the public trust.

That is their essential function—handle public money responsibly, according to government policy imperatives.

We can expand this single goal into a short menu of activities:

Be politically legitimate as a fund recipient or fund donee.

Be publicly accountable for moneys received: where spent, how, and what for.

Exercise political and policy discretion over resources. If a higher level of government has offered the authority a choice of outcomes, spend the money (within the housing universe) where it will do the most good.

Represent and advocate for the poorest renters.

Improve the quality of life of poor renters.

These activities are not the unique prerogative of housing authorities, of course—they are shared with many other entities, most significantly mission-oriented sponsors and mission financial sources like housing finance agencies. But they all fall squarely within the housing authorities' charge, and have done so for seventy years.

The political legitimacy is critical, since it enables the housing authority to attract resources that might otherwise be unavailable.

What Functions Are Technical Rather than Essential?

If public accountability is the essential housing authority function, what other functions are essential? When you think about it for a moment, the answer, remarkably, is—*none!*

Each of the following activities is technical, not essential:

Ownership is governed by legal documents that grant rights and responsibilities that can be separated from the intrinsically governmental function of assuring that residents have quality affordable housing. Government can provide and control housing without owning, as has been done in many contexts—long-term leases, portable subsidy, property-based subsidy, and others. Indeed, in most real estate, ownership is clearly represented as a technical function because each property is legally and financially independent of its partners. Furthermore, ownership establishes the critical principle that each property must be viable on its own merits.

Each property should be in its own special purpose vehicle (SPV), governed by a suitable legal agreement, so that it can tap capital and qualify for other Federal resources (e.g. volume-cap bonds and LIHTCs). Indeed, many housing authorities have already embraced separate-entity ownership via HOPE VI, Section 202 new development, or even particular local acquisitions. The ownership business activity can be further consolidated by creating an over-arching ownership company, which in turn owns a controlling or participating partner in each of the special purpose vehicles that each own one property. Such a two-tier fund structure is stock-in-trade of the tax credit equity syndication business as it has been practiced for over a decade.

Property management encompasses a thousand details and activities, each of which can be done observably better or worse. In the wider world, third-party property management is a professional service that can be acquired for every property type in every community in the United States. Some housing authorities around the country have already contracted their property management. More are considering it.

Maintenance activities are directly visible and performance is objectively measurable (nothing like a digital photograph to end arguments). Specialized systems and specialist companies abound, to the point that all housing owners, private or public, can and usually do call in specialists for at least some maintenance work.

- ***Security*** is in some sense a subset of maintenance, because it applies on some properties and not on others. Unlike local police, which is an essential function of local government because police are accountable to their citizens, property security is a technical function because (a) it can be accomplished in multiple ways, including use of tech-

TABLE 1 **THE TECHNICAL FUNCTIONS ASSOCIATED WITH PUBLIC HOUSING:**

ACTIVITY	WHY IT IS TECHNICAL, NOT ESSENTIAL	EXAMPLES OUTSIDE PUBLIC HOUSING
Ownership	Govern via legally binding documents, can be separate from funding and control	Tax credits, military, universities
Property management	Concerned with maximizing NOI and improving property condition	Institutional owners, fee-only managers in tax credit properties
Maintenance	Physical, visible, performance-based	Contractors of all stripes
Asset management	Financial and quantitative	Large owners, equity syndicators
Program compliance	Following a procedure, and documenting it has been followed	Tax credit auditing, certifications

nology, and (b) it can be hired from contractors, whether they are public (off-duty police) or private services.

Asset management is fundamentally financial and quantitative. In the private sector, asset management is usually contracted (to firms like ours) who specialize in knowing everything there is to know about the intersection of physical, operational, and financial disciplines.

Program compliance is quintessentially technical: it consists of following an imposed procedure and demonstrating that it has been followed.

The five technical—that is, not essential—functions can be recapitulated as shown in Table 1.

Envisioning the Essential Housing Authority: Organizational Structure

As shown in Table 2, the *essential* housing authority is a holding company.

It hires private-sector actors to do the labor and lifting; pays them from housing authority revenue stream; monitors their work and holds them accountable. That makes it brain and heart, not arms and legs.

The holding company approach has further economic and administrative benefits. Each activity area becomes a business unit, with its own performance, customer satisfaction, and profitability. Structuring the organization this way enables both management and accountability. The authority's commissioners and senior leadership can assess each activity's performance, and can strengthen or modify that performance as required. Additionally, a business-unit approach allows a current, comprehensive housing authority to tackle the problems of improving-or-contracting one at a time, starting with one activity (say, property management) and then moving sequentially to the others.

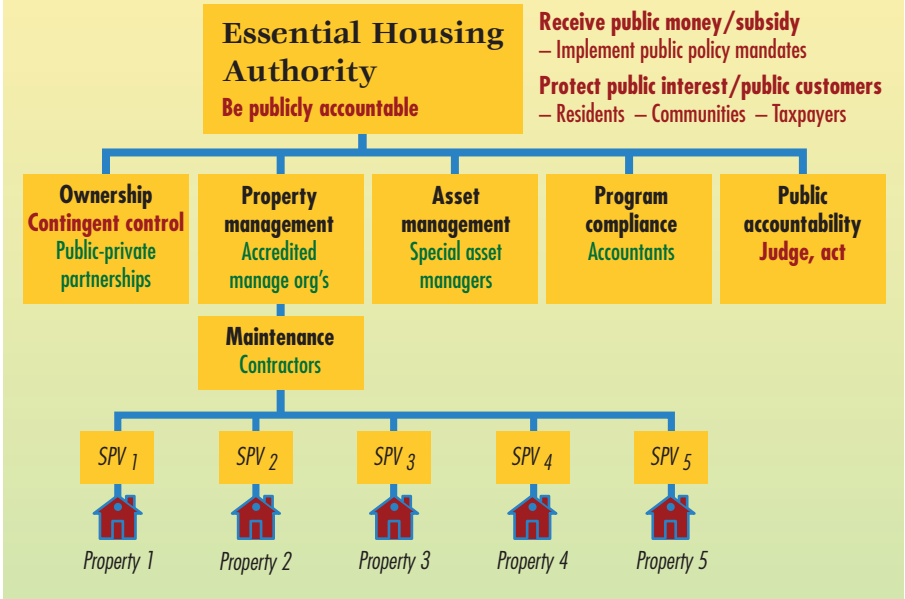
Finally, stepping away from direct technical functions simplifies the commissioners' and executive directors' workloads. Shrinking their span of control enables them to focus better, with more success, on the core missions.

CONTRACTING AND HOLISTIC QUALITY CONTROL

A housing authority that chooses to contract functions must be wise about how it does so. Jobs must be big enough to be meaningful, independent enough to be measurable, and autonomous enough to coordinate with the authority and other contractors. If work is chopped into too many small jobs, housing authorities may lack the capacity to check up on it, or may lead to contractors mutually finger-pointing even as the customer fumes.

Further, even as a housing authority reduces its direct workload by contracting technical functions, it must build up its oversight and quality control capacity, because managing contractors and contracts is not the same as directing employees. It substitutes document enforcement and incentives for command-and-control direction.

Table 2 **The Essential Housing Authority**



How Did Comprehensive Housing Authorities Arise?

When we look at the nation's 3,000+ housing authorities today, comprehensive entities are plentiful; privatized or essential housing authorities are few and far between. What then led the housing authorities to develop so universally as comprehensive? Actually, that's easy enough to understand when we appreciate that most housing authorities were founded forty to sixty years ago. They emerged as comprehensive housing authorities because they

had to. In 1937, when housing authorities were created, they and their business were completely new: There was virtually no concept of 'affordable housing.' Affordable housing meant slums. (Public housing was originally a slum clearance initiative.)

Residential property management was in its infancy, and certainly uninterested in anything but high-end urban apartments.

There were no sources of social capital.

There was no HUD. FHA mortgage insurance was in its infancy, and applied to single-family homes, not multifamily.

Public housing authorities created their own organs to perform technical functions because nobody else could or would. That was a noble endeavor, and it was successful.

Seventy years passed…and in that interval, everything else has grown up around the housing authorities, even as many of them have changed little from their original forms.

In design, form follows function. In organizations, form expands beyond function. In fact, in comprehensive organizations, functions can continue to be internalized on sheer momentum, even when they could be better addressed in a completely different way. Trimming the bureaucratic kudzu thus takes a conscious act of will, and a sustained commitment.

How Do Housing Authorities Migrate Back to Their Essence?

Each housing authority should find its own way back to its essential functions based on its current political, operational, legal and financial environment. That said, each is likely to pass similar way stations along the way, including the following.

Believe the vision. The housing authority can achieve strategic repositioning only if it has support from its leadership—commissioners, senior executive staff, and the rank-and-file's thought leaders. It's worth taking time to build an internal consensus, and to map a strategy that has strong organizational support. Otherwise, a housing authority that believes it will fail in the transformation is almost certainly going to prove itself right, with disastrous consequences for all concerned.

Embrace asset management. My *Gordian Knot* article exhorted housing authorities to think like owners, act like owners, finance like owners, and be funded like owners. One simply cannot think like an owner without understanding what each property looks like as its own financial enterprise. Converting abruptly to asset management is wrenching, and HUD's implementation has been snarled…but it is the right thing to do, an indispensable tool for thinking like an essential housing authority.

Become a co-developer. Co-development is invigorating, because it levers the housing authority's intangible assets—its reputation, political clout, and resource advantages—into an ownership position in a new, positively financed property. It also provides a way to build capacity and expertise. Yes, it exposes the housing authority to new risks, new parties and participants, and the uncomfortable open space of a pioneer. Come on in, the water's fine.

Look for opportunities to privatize. The housing authorities that have experimented with putting their property management out to bid have been generally pleased with the results—few who have done so have gone back to doing it themselves. From the perspective of a fee-only property manager, a housing authority's portfolio offers several appealing features: a single customer, very tight geographic concentration, and a reliable (if meager) income stream. There will be incoming proposals, and some of them will probably surprise the authority. If nothing else, they will accelerate the benchmarking of housing authority operating performance—after all, if private bidders think they can perform a larger scope of work for the same cost, why can't current management?

Burnish your political 'brand.' A housing authority ought to have a platinum political brand. No other body is simultaneously directly accessible to local government and to a community's lowest-income residents. Advocacy and defense of residents, and wise stewardship of public resources, should give the housing authority a platform of both expertise and moral leadership.

The political brand of some housing authorities is tarnished by factionalism, squabbling with residents or HUD or other bodies of government, outright corruption, or the negative press of their highly troubled developments. The brand is tarnished because the property is the subject of a steady stream of bad stories, and outside observers cannot distinguish bad properties from bad owners.

Rather than plunge into a high-visibility short-term holding action on individual troubled properties—there is no flood of capital to enable such a turnaround—a housing authority can reclaim its brand by finding the best outside operator imaginable, and giving that entity a contractual mandate to manage the property. This returns the housing authority to its essential mission—housing the poor and protecting the public pocketbook—while allowing the housing authority to let others handle the doing. It also separates property problems from management problems. If the best-in-class private operator cannot succeed either, the property's failure can no longer be blamed on the housing authority—it must be acknowledged

as a flaw in the property's financial configuration.

Retreating from the grunt work thus lifts the housing authority out of the trenches and back up to a plane where it can legitimately decry the property's failure without being tarred as its cause. Such a removal from direct operations also gives the housing authority moral and political legitimacy to criticize others' non-performance—whether they are managers who fail the task, or elected officials who fail to fund what is needed.

What about layoffs? By now, many an authority commissioner or director reading this article may be thinking, *All that is well and good, but it means many fewer staff—how can I get there?* There's no one way, but all the paths are governed by two principles: (1) respond to individuals, and (2) recognize that people are valuable, jobs are changeable. Some possibilities include:

- *Hiring away*. People who are good at line functions for a public body are often the best candidates to do similar work for a private company. In military and university housing, for instance, the incoming manager routinely hired most if not all of the site staff and many of the headquarters staff. These people have institutional and property knowledge that gives them a competitive advantage, to say nothing of the skills they've learned on the job.
- *Redeployment*. Some of those who formerly did direct work are well suited to selecting or overseeing new companies to whom work is outsourced. Others who formerly did a particular job within the housing authority are well placed to do other work for the reinvented authority or elsewhere in city government.
- *Growth*. An essential housing authority should be expanding its portfolio (remember co-development?). If the portfolio expands and staff does not, the authority has effectively shrunk its staff relative to the portfolio—and redeployed people into new jobs that are often more exciting and satisfying than their current ones.
- *Early retirement*. Very commonly appropriate for more senior staff members.
- *Normal attrition*. People move communities and move jobs. Those posts can remain unfilled, and if they are critical to the essential housing authority, others who stay can be redeployed into them (see above). To avoid adverse selection, where the good ones leave and the bad ones stay, the whole process needs to be managed according to a strategic plan that is transparent to

the employees, director, and commissioners.

It would be disingenuous to suggest staff change will be unopposed, or painless. Yet it is transitory, and can be handled with grace and respect for the staff—as demonstrated by privatization experience in university and military housing.

Putting It into Practice: Those that Have Gone Before

When it comes to privatization, public housing is late to the party: many other government or mission-oriented entities have migrated away from their original business model to an essential-function leaner configuration:

HUD's sponsors evolve into specialists. Originally, HUD owners were developers who wound up owning and managing the properties they owned, and no others. Starting in the mid-1990's, however, there emerged both large-scale fee managers and mission-oriented owners, chiefly non-profits. Increasing specialization is the irreversible trend.

The LIHTC outsources compliance. Runs the trick question, how many HUD officials does it take to supervise the nation's most successful housing production program? The answer is none, because the LIHTC is supervised by the Treasury and the state-level allocators. Even within the Treasury, it takes only a handful of people, both because many regulatory functions are handled by state allocators, and because all the compliance is done at the property level, by independent third parties (auditors), whose fees are charged to the property operating budget (or to the owner, and hence indirectly to the property operating budget. Equally instructive, because the LIHTC was designed for compliance to be handled outside government, it is outcome-oriented post-audit, which is far less stressful for all concerned, including the government customer.

Military housing privatization. The four service branches all got directly into the housing development, ownership and operation business for many of the same reasons housing authorities did—they had a government mission to support a particular group of residents (in the military's case, service members and their families), at an affordable rent, and when the posts were established, there was no viable private sector alternative.

While the military still uses direct ownership for new installations (for obvious reasons), within the continental United States the last ten years have seen a strategic commitment to privatize all the on-post military housing, and a remarkably consistent rollout of the privatization programs. Today nearly every large-scale post's housing is owned and operated by a private company, under contractual documents negotiated with the Army, Navy, Air Force or Coast Guard, and (in general) with much better quality of housing and lower cost than the old military-construction model.

Universities privatizing dormitories. This trend is less visible in urban environments, where the campus is landlocked and the student population tends to be level, but highly prevalent in the south and west. Increasingly, universities have contracted the housing function, both management and even ownership, to outside companies. Dining facilities are also increasingly contracted out.

The results have generally been lower cost, better service, innovations the customer would not have anticipated, happier program participants (residents), and an easier monitoring and compliance workload for the customer.

REAC, FASS-PH, and PHAS. The Financial Assessment Subsystem for Public Housing Agencies (FASS-PH), the Public Housing Assessment System (PHAS) and its property counterpart, HUD's Real Estate Assessment Center (REAC) scores, offer housing authorities an opportunity. Though each of these provoked a furor when introduced—criticisms of their methodology, compilation, inconsistency, and so on—they are here to stay, and they have gradually improved their precision and utility. From a managerial perspective, they provide quantitative information, means (for example) of evaluating other people's performance—whether those people are private or public—and in that they level the playing field. They also offer a time-series measurement of a housing authority's own performance; however flawed the metric, if it is improves, that is significant.

Further, within public housing, there are at least three examples of authorities embracing an essential-function approach:

HOPE VI transactions take a legacy public housing property and convert it into a privatized ownership. The transformation enables the property to attract substantial new subsidy (not just comprehensive grant but also LIHTC's and usually state-level funds as well). It brings in new governance (via a partnership agreement or LLC operating agreement), and new partners. Property management is invariably privatized. While the new capital is what

OUTCOME-ORIENTED POST-AUDIT COMPLIANCE

- ***Post-audit***. After the activity happens, compliance is audited (inspected).
- ***Outcome-oriented***. The audit focuses not on process (Did you follow the rules?) but on outcomes (Were the right tenants admitted? The right rents charged?)

makes HOPE VI properties look so much better than their predecessors, the new capital would not have been possible, politically or financially, without the ownership privatization.

Boulder Housing Partners—Housing Authority for the City of Boulder, Colorado. This agency (a Recap client) has systematically re-examined all of its assets and functions. More than half its portfolio is co-developed non-legacy-public housing.

Boulder's mission statement emphasizes its *outcomes* without specifying who achieves them.

For Boulder, as for many housing authorities, happy customers are equally desirable regardless of who provides the technical functions that make them happy. That's signified in its name change—not Boulder Housing Authority, Boulder Housing Partners.

> **Our primary mission is to provide quality, affordable housing, developed and managed with respect for the dignity of all involved. We also seek to create a sense of community strength and spirit that supports resident efforts to realize success in their lives.**

Milford Redevelopment and Housing Partnership. Milford, Connecticut might seem an unlikely place for revolutionary reform, yet Executive Director Anthony J. Vasiliou has accomplished nothing less. Ten years ago, the authority was embroiled in multiple lawsuits with the Department of Justice and the NAACP over alleged racial discrimination, losing money, facing an enormous capital backlog, and completely adrift.

Enter Vasiliou, a former engineer who approached Milford's problems with a fresh perspective. Hired by the board to tackle a mammoth problem, he started with three principles:

1. Leverage the best possible technology.
2. Insist on very strong accounting and internal controls.
3. Outsource and look at hiring necessary resources from outside.

Over the ensuing five years, galvanized by the need to respond to the court's orders, he recruited local political support for his reinvention plan, encouraged appointment of commissioners with specialty expertise to help implement it, identified effective contractors (starting with legal), added to Milford's contracting base (via accounting and compliance), then gradually privatized property management, asset management, and compliance,

(Continued on page 18)

Reinventing Milford

ANTHONY J. VASILIOU, TRANSCRIBED BY DAVID SMITH

THE AGENT THAT allowed us to see the world differently was the initiation of a fair housing lawsuit. Milford had already been on a slow path to considering privatization, starting with maintenance in 1994 and 1995. The lawsuit, a very traumatic event, was a catalyst. Prior to accepting a position with the organization, I enjoyed careers in both the public and private sectors. In the public sector, I served on Capitol Hill as a legislative aide, and later as the Deputy Secretary of the state of Connecticut. In the private sector, I worked in the computer industry for more than a decade, in a management capacity. I learned the different cultures of the public and private sectors prior to beginning employment at the Milford Redevelopment & Housing Partnership (MRHP).

I've always preferred employment that was pioneering/forward looking—not a job as a caretaker. There is no rulebook for dealing with fair housing lawsuits. You get involved knowing that you will go into a workout and turnaround situation, be a pragmatist, deal with what you have in place, and have a need to begin an assessment of who the people are in the organization. On my first day, I toured all the properties, Management By Walking Around (MBWA). I was shocked at some of the deterioration of the infrastructure, physical skeleton of the plant, building envelopes and heating systems, domestic hot water, and window systems.

The board hired me in 1997 with no influence from the outside. They were receptive to the need for change and that was part of the reason I took the job. I had a sense that we were on the precipice of major changes in the public housing industry. It was evident we had to change. I initially accepted the position without any long-term agreement for the first fourteen months, although I believe that, long-term, it is important to have an employment contract. That way the board knows that the advice you dispense is fair and free from ulterior motives. As we are all aware, sometimes the reality of running public housing is contentious and generates controversy; during these moments the board has to rely on your judgment in guiding them to make tough decisions.

We use contractors to perform as many of the conventional activities of the organization as possible. As a result of the lawsuit, we relied on outside legal counsel. These services were paid for by an outside insurance company. From the beginning we've relied on outsourced services and have continued to add more contractors over time.

On my second day here, I went to see the mayor. I told him that the public housing authority (PHA) was an independent non-profit corporation, that we have tough business in front of us, and that hopefully he would respect the work that had to be done. The mayor was very supportive and today the PHA continues to enjoy an excellent working relationship with the city.

Within the first 90 days, my human resources contractor and I had designed an enhanced and voluntary retirement offer that was approved by the board. Of the defined group who were eligible to participate, six out of six accepted; three out of four managers also took the offer and retired. We were without senior management in a very short period of time, but I found that to be an opportunity, not a loss: we could rebuild the organization.

We received a lot of negative press, and numerous complaints were made to the board. People said they were being pushed out, that the housing authority wouldn't survive losing over a hundred person-years of experience. They claimed we had no respect for work undertaken over the preceding 15 to 25 years. None of that was true, but those were the public comments, including many that appeared in newspaper articles. This went on for a number of months. Additionally, people would shadow our public forums and monthly board meetings (which are held on a rotating basis at each of our developments).

I've always wanted a strong board; I think it's great. You need as much counsel and expertise as you can get your hands on. A community's perception of the value of the organization is reflected in who serves. Continuity of leadership is critical; when going through periods of rapid change, if you don't have institutional memory to help guide you, you will be lost. A board is a tremendous source of information and skills the director can tap into. Board members need to sign up for at least five years. They're not compensated; it's a tough row to hoe for these citizen legislators. We found knowledgeable and skilled people who found time to serve. The appointment process has continued to find people with good skill sets, and with expertise the organization needs.

Everybody has to believe in the vision, including the rank and file and the residents. No surprises. I told people up front that we were looking at many things to change. We alleviated the employees' fears about losing their jobs by being clear, using concise communications, and being open, which all helped to build credibility. It takes years to make changes and to get people to accept other things. If people become afraid of the process, they will oppose you and work against the organization's need for change.

Some years, our public meetings would draw 35 to 50 to 125 members of the public. Initially, the community never really fully understood what public housing was. They were full of misconceptions. I was startled to find out how confused people were about subsidized housing. It took years to get large groups of citizens to learn about public housing. I spoke at Rotary meetings, at ecumenical councils; I talked about policy, things we're putting in place, and changes we're contemplating taking. This helped to slowly build support for the PHA over time.

When I came to Milford, the Admissions and Continued Occupancy Policy (ACOP) had not been overhauled in two decades! We made a major investment in changing the ACOP, lease, and associated procedures. If your staff has good tools, those tools will stand up and be enforced in actions in court. That makes your staff's lives easier, and the tenants come to respect you because everything is fair and everything is disciplined in accordance with the ACOP

and policies. People know the boundaries. Paying attention to your policies will help to systematize your organization. Now we do everything once a year, starting in August, accumulating all the changes and putting them through together during the annual development of the Agency Plan and Performance Funding System determinations.

Tucked away in the Quality Housing and Work Reform Act (QHWRA) is a regulation requiring PHAs to submit an organizational chart. I used it as a basis for discussion with the board of how to best organize and resource the authority. Voting on an agency plan that includes the organizational chart has consequences on the budget, consequences negotiating with collective bargaining units and consequences with the employees' areas of responsibility. I told the board that, although you need to closely examine the finances of the organization you don't vote on a budget, you vote on a performance funding system. Some boards like to meddle in daily administrative matters; when they do, they sometimes marginalize their responsibilities to develop and monitor policies. As an administrator you have to educate them that, if the CEO/Executive Director is pushed into too small a box, few good persons will stick around. A highly regulated industry is tough enough. If the box is drawn too small, you end up with caretakers instead of innovative administrators. No one feels comfortable doing anything

Always stay focused on what your organization does best. What is your highest and most pressing need? You cannot throw money or staff at everything; you have to make decisions about what to attack now. We accepted that in public housing there would be diminished revenues in the future. We used modernization funds as a way of minimizing the cost of maintaining the property. Do not plug holes with labor, whether with your employees or contract labor – when undertaking modernization the goal is to reduce maintenance costs. Always look at patterns: is this a maintenance issue we can address by using modernization money? If your domestic hot water heaters keep breaking, what about procuring new ones? What about renting them instead of buying them?

In our properties, we have literally hundreds of EXIT signs. Who changes bulbs in EXIT signs? We do. We went to the utility company, found a luminescent EXIT sign we could retrofit into our buildings. They have a 15-year life guarantee, and can operate 25-30 years before being replaced. The utility company re-lamped all the EXIT signs to be more energy-efficient, a longer-lasting lighting system: this resulted in a tremendous savings in labor, an opportunity to redeploy our labor force and an increase in productivity to organization. A small maintenance item, but one that produced big results.

We recaptured that labor, now we can reinvest it. Use increased productivity not to cut your work force, but to do more than you did before. Blend technology and productivity. In labor, never talk hourly rates, talk total compensation rates, what is the loaded cost per hour (with benefits)? Free up the organization's forced labor time to do other things that support the organization's long-term goals for change.

The board used a holding company concept and business unit approach as the basis for reorganizing. Do big tasks one at a time, sequentially based on criteria, never get overwhelmed by the magnitude of the job or by small work items that are driven by politics.

Starting in about 2000, we contracted out our annual inspection services. This helped to implement a check and balance: with no conflict of interests within the maintenance department. Although we are not required, we also inspect our state public housing. That's where we pick up patterns of maintenance that can be better addressed by spending modernization instead of maintenance dollars, and again there are no internal, organizational conflicts. It used to cost us $40+ an hour to do inspections of the units, now it's below $12 a unit, producing a better quality inspection and more timely information.

We also work on infrastructure and avoid the temptation of working on esthetics. That takes you down the wrong road. It gives you a short-term bounce (planters, fences), but long-term it normally is not the right financial decision. Infrastructure will give many years of payout (staff time and financial resources) by reducing expenses for these and other costs like energy.

When we renamed ourselves the Milford Redevelopment & Housing Partnership, it made a statement as to the future direction the organization was going to take. Our employees, elected officials, vendors, and the general community all got the message that we were going to be more than just landlords. We intended to become a redevelopment force in the community and to manage our portfolio in order to maximize its potential to provide affordable housing opportunities.

In 1997, we had 17 employees. Today we have 9 full-time and 1 part-time, for a total of 9.5 persons. We have 465 units of housing that we own and operate, 330 Federal, 135 state. We oversee this with 1 ½ people devoted to public housing management functions. We were able to accomplish this level of productivity by using technology and by performing business generally by "appointment only". We have reshaped the organization and educated our residents and have just about eliminated any "retail" activity that uses up precious resources of the Authority. Various measurement systems are used to gauge the effectiveness of each major department.

Earlier this year, when we had to hire a new housing manager, we had the best, most experienced and talented pool of applicants ever to apply for a position. Why did this happen? Once you get a public persona that you are an innovative organization and a place where people want to work, better and more experienced people will apply to join the organization.

I've been doing this for ten years and here I am, getting up every day at five AM. I still get as excited about coming to work now as I first did when I started a decade ago. When you stop having that feeling, then it's time to retire or move on.

along the way shrinking the authority down to a core staff of under ten people, all with only a single layoff. (For much more on Milford, see the sidebar case study, "Reinventing Milford".) Since then Milford has kept its operating costs low, implemented new accounting systems, rehabbed apartments, even built new public housing—and continued to innovate with new ideas.

In a crowning touch, Vasiliou persuaded the commissioners to rename the entity from the Milford Housing *Authority* to the Milford Housing and Redevelopment *Partnership*, emphasizing that its role depends upon partnering with rather than displacing the private sector.

(For more on Milford, including our insights on practical principles to be learned from its experience, see Recap's website at www.recapadvisors.com/publichousing/.)

Conclusion

Within each of us, we hold a shining image of ourselves when young. Inside ourselves looking out, we never see the slow changes time wreaks upon us—until that dreadful day of the twenty-fifth reunion and we meet our classmates, all of whom have suddenly become so *old*. Yet our minds are active—indeed, we are much wiser than we were in college or high school, much more capable of doing more with less.

So it is with housing authorities. Way back when, they took on technical functions because they had to, and today they maintain those technical functions because they always have. Until recently, housing authorities could ignore the wider world, so they have continued on, doing a little better the same things they did before, and seldom acting upon the radical restructuring that would bring them into a modern holding-company, effective real estate ownership structure.

Now, with the economic and regulatory system breaking down, they no longer can afford to. Decisive action—cutting the Gordian knot—also means changing what the organization is, and how it envisions its essential role.

To retreat from direct activity in technical functions is not to concede failure or to abandon the mission. Rather, it empowers housing authorities to advocate the mission. "Give me money for the property I run is failing" smacks of self-interest, whereas "Give me money because this property that I observe and others run is failing" expresses the public interest.

Stepping away from technical functions simplifies life and enables commissioners and directors to concentrate on the larger goal. They can, as the government-regulatory cliché puts it, steer rather than row, harnessing the private sector's thirst for profit into a mission outcome. They can then return to their Platonic ideal form—their essential, intrinsically governmental function—protecting residents and communities.

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