



Strategic Objective:

The Promotion of Viable Communities

Issue: The economic and social well-being of the nation's communities has a great bearing on the nation's overall growth and prosperity. Vibrant communities are integral to the quality of life of America's citizens. Community and economic growth is a multifaceted challenge involving state and local governments, nonprofits, and private entities covering a range of issues, including regional growth planning and management, local business development, home ownership, and disaster preparedness. As underscored by the events of September 11, where the critical role played by local governments in preparing and responding to terrorism attacks was highlighted for the entire nation, successful implementation of the many federal programs addressing these objectives depends on effective local governance and management.

The federal government operates more than 100 programs through multiple federal agencies and spends billions of dollars annually on grants, loans, loan guarantees, and other types of assistance for community and economic development. The sheer number of programs raises questions about the federal role in economic development—whether it should be focused on communities with special needs or more broadly directed toward all communities. In addition, a large share of the federal commitment is administered through state and local governments and nonprofit organizations. This reliance on multiple layers of government and nonprofits presents coordination issues for the local communities and oversight challenges for the federal government.

Small businesses play an important role in the nation's economy, employing more than half of the nation's workforce. The Small Business Administration (SBA), with a portfolio of loans worth more than \$50 billion, is the nation's single largest financial backer of small businesses and provides management and technical assistance to about 1 million small business owners annually. SBA also has oversight responsibility for federal contracting goals for small businesses. SBA has undertaken numerous initiatives to address management issues. As a result, the Congress needs up-to-date assessments of SBA's performance.

To promote affordable home ownership, a key element of a vibrant community, the federal government provides mortgage assistance through mortgage guarantees provided by the Federal Housing Administration and the VA and guarantees of mortgage securities by the Government National Mortgage Association (GNMA). It also provides a federal charter and other direct and indirect benefits to government sponsored enterprises—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—that invest in mortgages that are not federally insured. The federal government must balance the benefit derived from achieving additional home ownership, especially among the underserved, against the financial risk it takes on directly or indirectly.

The Department of Housing and Urban Development (HUD) provides housing assistance programs to help families with lower incomes reside in safe, decent, and affordable housing. HUD's rental assistance programs remain at high risk of waste and abuse, and HUD faces numerous management challenges in human capital, contract management and information technology. Also, HUD and the U.S. Department of Agriculture's Rural Housing Service, which oversees rural housing programs, face challenges in ensuring that federally assisted properties are physically and financially sound and administered in a way that best serves the needs of low-income households. All of these challenges point to the need to better understand the relationship between federally supported housing programs and community stability.

Since the late 1970s, the federal government provided over \$100 billion to help prepare for disaster and to assist disaster victims and their communities. In response to the recent terrorist attacks, billions of dollars have already been appropriated for recovery and relief efforts. Establishing an efficient and cost-effective approach to disaster assistance is difficult in the face of pressures to provide relief for disaster victims. However, approaches that provide incentives for preventive activities and foster private insurance coverage are two avenues that both the Federal Emergency Management Agency (FEMA) and the Congress are interested in exploring.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess federal economic development assistance and its impact on communities,
- assess how the federal government can balance the promotion of home ownership with financial risk,

- assess the effectiveness of federal initiatives to assist small and minority-owned businesses,
- assess federal efforts to enhance national preparedness and capacity to respond to and recover from natural and man-made disasters, and
- assess how well federally supported housing programs meet their objectives and affect the well-being of recipient households and communities.

Assess Federal Economic Development Assistance and Its Impact on Communities

Key Efforts

- ❑ Identify approaches and best practices for measuring the impact of economic development programs
- ❑ Assess the impact of program fragmentation on program recipients
- ❑ Assess the impact of specific economic development initiatives on communities
- ❑ Assess the implications of federal programs and policies on communities' efforts to plan for and manage growth and the implications of the characteristics of state, local, and metropolitan-area planning models for achieving the goals and outcomes of federal programs (for example, housing, transportation, and economic development)

Significance

Federal commitment to strong and stable communities is demonstrated through the diversity of federal economic development assistance programs. More than 70 federal programs provide direct economic development assistance in the form of grants, loans, and loan guarantees involving billions of dollars each year. The economic issues addressed by these programs include the living conditions of low- and moderate-income families, and the stability of urban and rural American communities. At the same time, faced with continued dramatic increases in their populations and demand for residential and commercial development, many communities have become increasingly concerned about the need to plan for and manage growth and development in a way that is economically and environmentally sustainable. A large share of the federal commitment is administered through state and local governments or nonprofit organizations. As a result, the outcomes from these programs often are determined by local priorities, affected by local economies, and require years to accomplish. Furthermore, communities are finding that planning for and managing growth means an increasingly complicated governance challenge of bringing state, regional, and federal players and resources to bear on numerous crosscutting issues and concerns. Thus, federal decision makers face the challenge of finding ways to improve the design and flexibility of federal programs to help communities balance sustainable economic growth with the need to maintain quality of life and deliver key services while still providing sufficient oversight.

Potential Outcomes that Could Result when GAO's Work Is Used

Improved oversight of federal economic development programs

Improved coordination among federal programs and streamlined delivery of economic development assistance

Improved decision making related to the creation or continuation of federal programs

Better congressional understanding of the implications of federal programs on the growth and development of communities; the implications of different state, local, and metropolitan-area planning models on the outcomes of federal programs; and how to better design federal programs to achieve their strategic goals in light of this understanding

Assess How the Federal Government Can Balance the Promotion of Home Ownership with Financial Risk

Key Efforts

- ❑ Assess HUD's controls to manage risks, including its oversight of the lenders, appraisers, and contractors that participate in HUD's loan origination, loan servicing, and management of HUD-held loans and property functions
- ❑ Assess the financial risks associated with the activities of GSEs
- ❑ Assess the impact that market and policy changes may have on HUD's single-family and multifamily insurance funds and the budget
- ❑ Evaluate the effectiveness of federal programs, tax and other incentives, and requirements that support financing for parts of the single-family and multifamily housing markets that are considered to be underserved

Significance

The federal government supports housing finance through various programs, incentives, and requirements. To promote homeownership, the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA), the Department of Veterans Affairs' Loan Guaranty Services, and the Department of Agriculture's Rural Housing Service (RHS) insure home mortgages made by lenders against loss for home buyers who would have difficulty obtaining, or be unable to otherwise obtain, home mortgages. FHA and RHS also insure mortgages for multifamily properties. These agencies are responsible for managing over \$600 billion in insured mortgages. In addition, HUD's Government National Mortgage Association—through its guarantee of \$600 billion in mortgage-backed securities—provides liquidity to the market by ensuring that lenders of government-insured loans can obtain additional funds to make mortgages available to other qualified borrowers. Furthermore, government-sponsored enterprises (GSE), Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are also encouraged to provide liquidity to lenders in underserved markets. These GSEs must also operate in a safe and sound manner. The housing finance system supported by these federal agencies and GSEs represents one of the nation's largest financial markets, with significant commitments, obligations, and financial exposure. These entities have long-term commitments whose ultimate cost depends on the performance of underlying mortgages and, in the case of GSEs, the prudence of their funding strategies. At the same time these various federally sponsored programs, incentives, and requirements can have a substantial influence on the availability of housing finance, particularly for markets that are considered to be underserved.

Potential Outcomes that Could Result when GAO's Work Is Used

Better management of acquired multifamily properties and loans, thereby limiting the federal government's losses

Improved HUD administration of its single-family and multifamily mortgage insurance program

Improved supervision of the GSEs, enabling them to meet public policy goals while ensuring safe and sound operations

Improved capital requirements that are more commensurate with the risks posed by the GSEs' operations

Improved HUD ability to ensure adequate capital reserve and funding for its insurance programs

Assess How the Federal Government Can Balance the Promotion of Home Ownership with Financial Risk (cont.)

More effective delivery of homeownership opportunities to low- and moderate-income households

Assess the Effectiveness of Federal Initiatives to Assist Small and Minority-Owned Businesses

Key Efforts

- ❑ Assess SBA's initiatives to make its programs more efficient, effective, and helpful to small businesses, especially those least able to access credit markets
- ❑ Assess SBA's management initiatives in areas such as organizational alignment, information technology, financial management, and human capital, and determine how these improvements may have helped SBA better meet its mission
- ❑ Assess the impact of federal contracting policies and practices on small businesses and determine what oversight SBA provides to ensure that federal agencies meet small business contracting goals

Significance

America's small businesses play a critical role in the nation's economy, employing more than half the nation's workforce. Since its inception in 1953, the Small Business Administration (SBA) has had a clear mission to serve the small business sector of the economy by providing financial, technical, and management assistance to help Americans start, run, and grow their own businesses. SBA also has oversight responsibility for federal contracting goals for small businesses. In 2000, \$47 billion in federal prime contracts went to small businesses. SBA has undertaken a number of initiatives to address problems identified in areas such as its business loan guarantee programs, minority business development program, and information systems management. As SBA pursues its mission to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from natural disasters, the Congress needs up-to-date functional and programmatic assessments of SBA's performance.

Potential Outcomes that Could Result when GAO's Work Is Used

Improved SBA assistance to small businesses and better cost-saving measures

Improved SBA management practices that lead to more results-oriented performance

Increased knowledge of the effects of federal contracting practices on small businesses and enhanced oversight of federal small business contracting goals

Assess Federal Efforts to Enhance National Preparedness and Capacity to Respond to and Recover From Natural and Man-Made Disasters

Key Efforts

- ❑ Assess FEMA's and other federal agency efforts to coordinate federal, state, and local disaster preparedness, response, and recovery efforts and ensure efficient, effective, and accountable services at all levels
- ❑ Assess the structure, coordination, and cost-effectiveness of FEMA's disaster mitigation activities to reduce the likelihood and potential effects of both man-made and natural disasters
- ❑ Assess the cost and benefits of implementation of existing disaster-related insurance programs
- ❑ Assess the capacity of private insurance markets to supply coverage to protect individuals, families, and businesses from catastrophic losses, and assess federal efforts to support and supplement that protection

Significance

Since 1977, the federal government provided over \$100 billion to assist victims of disasters and emergencies during the 1980s and 1990s. To respond to the recent terrorist attacks, the Federal Emergency Management Agency (FEMA) has already been appropriated \$40 billion for recovery and relief efforts in New York City, Virginia, and Pennsylvania. The Federal Response Plan, coordinated by FEMA, represents the federal blueprint for responding to all disasters, providing a framework for coordinating the delivery of all federal assistance to state and local governments. The September 11 attacks have heightened national interest in and concern about the effectiveness of overall federal support to state and local governments in enhancing the planning, mitigation, response, and recovery from disasters—both natural and man made.

Determining how to provide disaster assistance as efficiently and cost-effectively as possible is the subject of many national debates. The Congress and FEMA have increasingly emphasized the importance of mitigation—prevention activities or projects put in place prior to a disaster to reduce losses or to prevent them from occurring—as the most effective means of reducing long-term losses from disasters. However, the process FEMA has used in the past to provide mitigation assistance—making a grant after a disaster based on a percentage of the total costs of the disaster available for discretionary use within a state—may not prepare the nation for disasters in other geographic areas. Although the National Flood Insurance Program was intended to shift the financial burden of flood losses from the federal government to policyholders, it has not fully done so as the program's expenses over time have exceeded its revenues. As concerns about controlling future disaster spending grow, decision makers are facing new issues regarding the availability and affordability of insurance coverage and mitigation assistance for terrorist incidents as well as natural disasters.

Potential Outcomes that Could Result when GAO's Work Is Used

Improved coordination and more effective federal support of efforts to enhance the capacity of state and local first responders to cope with large-scale disasters

More responsive, better coordinated, and more efficient and accountable disaster response and recovery efforts

Assess Federal Efforts to Enhance National Preparedness and Capacity to Respond to and Recover From Natural and Man-Made Disasters (cont.)

More effective and economical mitigation strategies and programs for the full range of federal efforts to reduce the likelihood and effect of future disasters

Increased congressional understanding of the National Flood Insurance Program's coverage of properties in flood-prone areas and possible measures to improve the program's financial condition

Increased understanding of the pros and cons of increased federal involvement in providing catastrophic insurance or other forms of backup protection to enhance the capacity of private insurance markets

Assess How Well Federally Supported Housing Programs Meet Their Objectives and Affect the Well-Being of Recipient Households and Communities

Key Efforts

- ❑ Assess how current and new housing programs can better meet the demand for low-income housing
- ❑ Assess federal agencies' efforts to ensure that federally assisted housing is effectively managed and remains in good physical and financial condition
- ❑ Assess how effectively housing programs are used in combination with other community investment programs in promoting decent affordable housing and suitable living environments
- ❑ Determine what progress HUD has made in managing program costs and operations and in addressing its high-risk performance and management challenges, including its human capital management and acquisitions practices

Significance

For more than six decades, the federal government has taken numerous actions to help families with lower incomes attain safe, decent, and affordable housing. In fiscal year 1999, the federal government spent close to \$30 billion to provide housing assistance to about 5.2 million households. This assistance included funding to support about 1.6 million units with certificates and vouchers, about 2.4 million privately owned subsidized units, and about 1.3 million public housing units. During the same year, however, almost 9 million very-low-income renter households that qualified for housing assistance did not receive it. HUD's rental assistance and other programs remain at high risk of waste, abuse, and mismanagement. HUD faces numerous challenges in improving its human capital, acquisition management, and information technology capabilities and practices. Federal agencies also face a number of challenges in making sure that the existing housing stock is physically and financially sound and is administered in a manner that best serves the needs of low-income households. For example, a substantial portion of the federally supported housing stock is either currently experiencing physical or financial difficulties or is likely to face such difficulties in the future. Furthermore, existing housing assistance and supportive services programs are faced with the growing and changing needs of special populations—the elderly, the homeless, and persons with disabilities. All of these challenges point to the need to increase the cost-effectiveness of housing programs, to strengthen program delivery mechanisms, to modify programs in light of changing needs, and to ensure that responsibilities for administering the programs are being carried out in the most efficient and effective manner. These challenges also point to the need to better understand the relationship between federally supported housing programs and community stability.

Potential Outcomes that Could Result when GAO's Work Is Used

Improvements in the design, delivery, efficiency, and impact of housing assistance programs

Improvements in federal agencies' efforts to assess and address the physical and financial needs of federally supported housing

Improvements in agencies' actions to identify properties that are physically or financially troubled and to take corrective actions

Assess How Well Federally Supported Housing Programs Meet Their Objectives and Affect the Well-Being of Recipient Households and Communities (cont.)

Enhancements in HUD's efforts to identify and address its major human capital issues

Improvements in HUD's management of its acquisition process and efforts to hold contractors accountable for their work

A more informed basis for the Congress to assess the costs and spending patterns of HUD's programs and operations