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HOUSING AND URBAN DEVELOPMENT

Comments on HUD's Fiscal Year 1999 Budget Request

Statement for the Record by
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GAO/T-RCED-98-137

Mr. Chairman and Members of the Subcommittee:

We are pleased to have the opportunity to comment on the Department of Housing and Urban Development's (HUD) fiscal year 1999 budget request.[1] HUD has proposed a fiscal year 1999 appropriation of approximately $25 billion to support a variety of housing and community development programs. As you requested, we reviewed the reasonableness of selected aspects of HUD's fiscal year 1999 budget request. Our statement today is based on our recently completed and ongoing work and will discuss (1) actions HUD has taken or plans to take to improve its budget estimates, (2) the reasonableness of HUD's request for Section 8 tenant-based and moderate rehabilitation housing assistance, (3) HUD's justification for its Section 8 project-based amendment request, (4) HUD's request for funding to assist the homeless, (5) HUD's request for $100 million to fund its new Regional Connections Initiative, (6) HUD's capacity to manage its HOPE VI program, and (7) the budgetary implications for public and assisted housing of welfare reform. In appendices I and II, we also list and describe program initiatives, enhancements, and funding increases that HUD proposes in its fiscal year 1999 budget request. Appendix III contains the scope and methodology of our review.

In summary, we found the following:

•Recognizing the need to improve its budget-estimating process with better oversight and documentation, HUD has started to modify its organizational structure to increase its oversight of the staff responsible for formulating budget estimates. However, many of HUD's planned improvements—such as the Office of Budget's analysis of the program offices' submissions—were not implemented in time to help ensure the accuracy of the Department's fiscal year 1999 budget estimate. According to HUD officials, these improvements will be in place to enhance the fiscal year 2000 process.

•While HUD has significantly improved its budgeting for Section 8 tenant-based and moderate rehabilitation contract renewals, HUD's request for $4.8 billion to renew and amend Section 8 tenant-based and moderate rehabilitation assisted housing contracts for fiscal year 1999 could be

[1]We also provided a statement for the record to the Senate Committee on Appropriations on March 12, 1998. While similar, this statement provides additional information, such as a summary of program initiatives, enhancements, and funding increases in appendices I and II. Housing and Urban Development: Comments on HUD's Fiscal Year 1999 Budget Request (GAO/T-RCED-98-123, Mar. 12, 1998).

overstated by as much as $691 million.[2] First, HUD overstated its moderate rehabilitation renewal needs by about $182 million. Second, $439 million of excess budget authority in the Section 8 moderate rehabilitation program could be used in place of new budget authority to renew expiring housing assistance contracts. Finally, because this excess budget authority exists, HUD will not be likely to need the $70 million it has requested to amend Section 8 moderate rehabilitation contracts.

•HUD's budget request for $1.3 billion to amend Section 8 project-based contracts—needed to cover shortfalls in these long-term contracts—substantially exceeds the amounts that HUD's analyses indicated are needed. According to HUD officials, part of the excess amount reflects a policy decision by the Office of Management and Budget and HUD to increase the Department's budget request to help address long-term needs for funding to amend Section 8 project-based contracts in future years. A second part of the excess was identified in a February 1998 analysis by HUD showing that contracts expiring in fiscal year 1998 have $2.6 billion in excess balances that could be applied to meet the Department's fiscal year 1999 needs. This figure substantially exceeds the amount of $463 million that HUD used in its budget request to offset its fiscal year 1999 needs for funding to amend project-based contracts.

•To help address the needs of the nation's homeless, HUD has requested 34,000 new Section 8 vouchers. If approved, the vouchers would help to address congressional concern that a high proportion of funding for assistance for the homeless has been spent in the past on supportive services instead of on direct housing assistance. However, HUD has not developed the eligibility standards or other planning criteria for these new vouchers that would facilitate the program's implementation.

•HUD's budget request for $100 million for the Regional Connections Initiative, a new set aside within the Community Development Block Grant program to address key regional issues, does not provide enough detail to indicate whether this level of funding is reasonable for the program. Moreover, a draft advisory report that HUD provided to us as additional justification for the program does not recommend a significant federal effort to address regional problems. Nevertheless, HUD officials believe the funding level is a manageable set-aside. Because of the work required to

[2]The Section 8 housing assistance program, named for the revised section 8 of the U.S. Housing Act of 1937, was originally established by the Housing and Community Development Act of 1974 (P.L. 93-383). It includes tenant-based assistance for specific households and project-based assistance for specific properties.

initiate a program like this, we question whether the funds can be awarded in fiscal year 1999.

•HUD may not have the capacity to properly manage $550 million it is requesting for the Severely Distressed Public Housing (HOPE VI) program. As HUD downsizes the Department, it will have to rely less on experienced staff and more on outside contractors to oversee the program. Since 1995, the number of HOPE VI projects has doubled, but HUD's HOPE VI headquarters staff has decreased by one-third. Therefore, we question whether HUD has enough experienced people remaining to perform the day-to-day management of the HOPE VI program that is vital to protecting taxpayers' interests.

•Welfare reform may have a substantial future impact on HUD's spending for assisted housing for low-income households. However, estimating the impact may not be possible because the states' differing welfare reform provisions produce different effects from state to state and year to year.

HUD's Fiscal Year 1999 Budget and Programs

Established in 1965, HUD is the principal federal agency responsible for programs in four areas—housing assistance, community development, housing finance, and regulatory issues affecting areas such as lead-based paint abatement and fair housing. To carry out its many responsibilities, HUD was staffed by 9,885 employees as of January 1998.

•Housing Assistance: HUD provides (1) public housing assistance through allocations to public housing authorities and (2) private-market housing assistance through rental subsidies for properties, referred to as project-based assistance, or for tenants, known as tenant-based assistance. In contrast to entitlement programs, which provide benefits to all who qualify, the benefits of HUD's housing assistance programs are limited by budgetary constraints to only about one-fourth of those who are eligible.

•Community Development: Primarily through grants to states, large metropolitan areas called entitlement areas, small cities, towns, and counties, HUD provides funds for local economic development, housing development, and assistance to the homeless. The funding for some programs, such as those for the homeless, may also be distributed directly to nonprofit groups and organizations.

•Housing Finance: The Federal Housing Administration (FHA) insures lenders—including mortgage banks, commercial banks, savings banks,

and savings and loan associations—against losses on mortgages for single-family properties, multifamily properties, and other facilities. The Government National Mortgage Association, a government-owned corporation within HUD, guarantees investors the timely payment of principal and interest on securities issued by lenders of FHA-insured and VA- and Rural Housing Service-guaranteed loans.

•Regulatory Issues: HUD is responsible for regulating interstate land sales, home mortgage settlement services, manufactured housing, lead-based paint abatement, and home mortgage disclosures. HUD also supports fair housing programs and is partially responsible for enforcing federal fair housing laws.

HUD's programs are supported through annual appropriations (discretionary budget authority) that are subject to discretionary spending limits under the Budget Enforcement Act, as amended. For fiscal year 1999, HUD has requested about $25 billion in discretionary budget authority, which, in combination with available budget authority from prior years, will help support about $33.2 billion in outlays.[3] This request represents a 4-percent increase in budget authority and a negligible increase in estimated outlays over fiscal year 1998.

HUD's fiscal year 1999 budget summary states that the Department's budget request did not include new programs or bureaucracies. However, as shown in appendix I, HUD's request includes at least 22 new "initiatives" or "program enhancements." The Congress has questioned whether HUD should implement new initiatives before management reforms are in place, particularly in light of the Department's ongoing efforts to downsize and reorganize. In addition, HUD proposes funding increases for virtually all program areas. Appendix II summarizes the proposed increases to existing programs in fiscal year 1999 programs.

HUD Plans Management Reforms to Improve Budget Estimates

As we reported in February 1998, accurate budget estimates are essential for federal agencies to meet their fiscal responsibilities because such estimates facilitate sound policy decisions and effective funding trade-offs.[4] Unfortunately, for years HUD had difficulty submitting accurate budget estimates. Recognizing the need to improve its budget process with better

[3]Budget authority is the authority provided by federal law to incur obligations that will result in outlays. Appropriations are the most common means of providing budget authority. Outlays are the measure of federal spending and are payments to liquidate obligations.

[4]Section 8 Tenant-Based Assistance: Opportunities to Improve HUD's Financial Management (GAO/RCED-98-47, Feb. 20, 1998).

oversight and documentation, HUD has developed and begun implementing corrective actions.

HUD recently placed all departmental budget operations under the Office of the Chief Financial Officer (CFO) to ensure that budgeting is integrated with financial management oversight. In the past, HUD's budget operations have been fragmented and disjointed, preventing clear accountability and necessary coordination. This problem was the result of the CFO's inability to link budgeting with strategic planning and financial management, according to HUD's Management Reform Plan. As another improvement, HUD is hiring a chief financial officer for all program divisions to mirror the operations of the Department's Office of the CFO. Previously, the program division's budget director and comptroller reported to a deputy assistant secretary. Under the new structure, the division's budget director and comptroller will report to the division's CFO, who will coordinate with the agency's CFO and the division's program staff to ensure adequate oversight.

In addition to organizational changes, the Office of the CFO plans to develop budget estimating policies and procedures that build in enough time for adequate coordination, oversight, and communication. However, HUD did not implement many of the changes in time to help ensure the accuracy of the Department's fiscal year 1999 budget estimate. According to HUD's Director of the Office of Budget, time constraints prevented his office from performing analytical reviews of the program offices' submissions. He said that his office was limited to reviewing the fiscal year 1999 budget estimates for numerical accuracy and could not always question the estimates' reasonableness or underlying basis. He believes that the planned improvements should be operational in time for HUD's fiscal year 2000 budget submission.

HUD's Request for Section 8 Tenant-Based and Moderate Rehabilitation Assistance Could Be Reduced

HUD has significantly improved its budgeting for Section 8 tenant-based and moderate rehabilitation contract renewals by omitting duplicative contingency allowances and accounting for excess budget authority in the Section 8 certificate and voucher programs.[5] Specifically, in contrast to the Department's Section 8 tenant-based contract renewal request for fiscal year 1998, HUD's request for fiscal year 1999 does not appear to contain duplicative contingency factors. Instead, HUD's improved budget estimate for fiscal year 1999 is based on actual expenditure data for fiscal year 1996 adjusted for inflation. In addition, HUD will use $3.7 billion of excess

[5]For the tenant-based program, HUD contracts with state and local housing agencies to manage the program's certificates and vouchers, which assist 1.4 million households. These agencies make payments to private-sector landlords to subsidize the rents of certificate and voucher holders.

budget authority recaptured from the Section 8 tenant-based program to offset the cost of contract renewals in fiscal year 1999.

Nevertheless, we found that HUD's request for $4.8 billion to renew and amend Section 8 tenant-based and moderate rehabilitation contracts may be overstated by as much as $691 million. Specifically, we found that

•$182 million for Section 8 moderate rehabilitation contract renewals was erroneously included in HUD's budget request;

•$439 million in excess budget authority exists in HUD's moderate rehabilitation program; and

• $70 million that HUD requested for moderate rehabilitation amendments may not be needed because excess budget authority exists in the moderate rehabilitation program.

Although HUD has improved its budget-estimating process, we believe that the Department has overestimated its need for Section 8 tenant-based contract renewal funding for three reasons. First, HUD inadvertently overstated its request for Section 8 moderate rehabilitation contract renewal funding by about $182 million. While HUD requested funding for 46,962 units, it later determined that only 14,598 units would expire in fiscal year 1999. HUD officials explained that they used inaccurate formulas to originally estimate the Department's fiscal year 1999 moderate rehabilitation contract renewal needs.

Second, we believe HUD has overestimated its contract renewal funding needs because $439 million in excess budget authority in the moderate rehabilitation program could be used to renew expiring contracts in lieu of requesting new budget authority. As shown in table 1, HUD determined in January 1998 that the gross excess budget authority in the Section 8 moderate rehabilitation program was about $814 million. Of that amount, the Department estimates that it will need $191 million to meet funding shortfalls in the program and $184 million to cover contingencies, such as decreases in tenants' incomes or unexpected rent increases. (HUD officials believe, however, that the Department needs statutory authority from the Congress to use excess budget authority to cover some of these funding shortfalls.) The remaining $439 million is the budget authority that HUD considers to be in excess of the Section 8 moderate rehabilitation program's needs.

Table 1: Excess Budget Authority in the Section 8 Moderate Rehabilitation Program

Dollars in millions	
Gross excess budget authority as of 1/15/98	$814
Less excess budget authority needed to fund shortfalls	(191)
Less reserve for contingencies	(184)
Excess budget authority	$439

Source: HUD's Office of Public and Indian Housing.

According to HUD officials, the Department has not yet decided whether to recapture this budget authority or if so, how much it would recapture. Although HUD did not complete its analysis of excess budget authority in the moderate rehabilitation program in time to include this amount in its initial budget submission for fiscal year 1999, we believe enough time remains before the Department's appropriations bill is referred to a House-Senate conference committee for HUD to revise its fiscal year 1999 request to reflect the $439 million in excess budget authority available to reduce the cost of renewing contracts.

Third, HUD's January 1998 analysis also shows that a request for $70 million to amend Section 8 moderate rehabilitation contracts may not be needed. Generally, amending contracts refers to changing specific housing assistance contracts to add more funding. According to HUD officials, the $70 million was included in the budget as a placeholder until the Department completed its analysis of excess budget authority in the moderate rehabilitation program. As noted above, HUD's analysis shows that sufficient excess funding exists in the program to cover both program shortfalls and unexpected costs and still have $439 million remaining in excess budget authority. This means that a separate funding request for $70 million is unnecessary. If the Congress grants HUD the authority it believes it needs to use excess budget authority to cover funding shortfalls in the program, Department officials told us that they would not need this $70 million to amend Section 8 moderate rehabilitation contracts.

HUD's Request for Funding to Amend Section 8 Project-Based Contracts Is Overstated

According to HUD's budget request, the total amount of funding needed to amend Section 8 project-based contracts for fiscal year 1999 is $1.7 billion. Amending contracts generally refers to changing specific housing assistance contracts to add more funding. HUD's request also shows that this amount can be reduced by over $400 million to a net $1.3 billion when HUD recaptures excess balances that remain on expired housing assistance contracts and uses these amounts to offset current needs for funding to amend other contracts.[6] However, for the two reasons discussed below, we believe that the request substantially exceeds the amounts needed. HUD, in fact, may have enough potential recapture amounts to more than offset the entire amount of funding needed to amend contracts in fiscal year 1999.

First, while HUD's analysis dated April 1997 estimates the need for $1.2 billion to amend Section 8 project-based contracts during fiscal year 1999, an additional $500 million was added to the request as a result of a policy decision. The April 1997 analysis was derived from HUD's Budget Forecast System used to estimate Section 8 amendment needs for budgeting purposes. HUD prepared the analysis using a methodology referred to as "leveling," under which HUD spreads funding shortfalls over the remaining term of the contract rather than beginning in the year the contract is projected to run out of money. For example, for a contract costing $1 million a year with 10 years remaining and $9 million available, the $1 million shortfall would be spread in $100,000 increments over the next 10 years, rather than being identified as a shortfall of $1 million in the tenth year. Leveling allows the Department to request a consistent annual amount to fund amendments and to avoid requesting large amounts in later years. Contrary to HUD's budget request, the April 1997 analysis shows a total amendment need of $1.2 billion in fiscal year 1999—about $500 million less than the $1.7 million identified in the request. HUD officials said that the $500 million requested above the analytically derived amount reflects a policy decision by the Office of Management and Budget and HUD to augment the request because of the long-term funding need for amendments.

Second, a more recent analysis of HUD's Section 8 project-based amendment needs, dated February 1998, estimates that the amounts of recapture funds to become available in the next several years are

[6]The project-based contracts were entered into beginning in the 1970s and 1980s, typically for 15-, 20-, or 40-year periods. While the funds provided for these long-term contracts have exceeded actual needs in some instances, they have been insufficient in other instances to make rental assistance payments through the terms of the contracts. Beginning in the early 1990s, the Department started requesting funds to amend contracts with insufficient funding.

substantially higher than those reflected in the budget. HUD prepared this analysis at our request to address problems that we identified in HUD's previous analyses of its Section 8 amendment needs. Among other things, we found that the previous analyses did not include Section 8 project-based funding that HUD received in its fiscal year 1997 appropriation and erroneously excluded about 1,800 Section 8 contracts. Most importantly, the February 1998 analysis projects that $2.6 billion in recaptures will become available in fiscal year 1998, compared with the earlier estimate of $463 million in recapture amounts that HUD used to offset the 1999 budget request.

We are currently reviewing this analysis as part of the work we have under way examining HUD's unexpended Section 8 project-based balances.[7] Our preliminary results indicate that HUD's amendment needs may be substantially less than HUD estimated in formulating its fiscal year 1999 budget request. We plan to issue our report in July 1998.

A New HUD Initiative Would Increase Direct Housing Assistance for the Homeless

For fiscal year 1999, HUD is requesting $958 million to fund its ongoing programs for the homeless and $192 million for 34,000 new Section 8 vouchers for homeless individuals or families. If approved, the vouchers would help to address congressional concern that a high proportion of funding for assistance for the homeless has been spent in the past on supportive services instead of on direct housing assistance. However, HUD has not developed the eligibility standards or other planning criteria for these new vouchers that would facilitate the program's implementation.

Half of HUD's Fiscal Year 1996 Funding for Competitive Grants to Assist the Homeless Was Spent on Supportive Services

Members of Congress have expressed concern about the proportion of HUD's funding for the homeless that is used for supportive services compared to housing assistance. A House bill introduced in 1997 proposed placing a cap on the percentage of total funding that grantees can use to provide services for the homeless.[8] In fiscal year 1996, the latest year for which HUD has detailed information on the allocation of its homeless assistance funds, 51 percent of the competitive funding HUD awarded to grantees was spent on supportive services as opposed to direct housing

[7]This review is required by the emergency supplemental appropriations law enacted in June 1997 (P.L. 105-18).

[8]The Chairman of the Subcommittee on Housing and Community Opportunity, House Banking and Financial Services Committee, proposed H.R. 217 in June 1997, which was designed to alter the composition and delivery of HUD's McKinney Act funding.

assistance. Table 2 shows the breakdown between services and housing for three of HUD's competitive homeless assistance programs.[9]

Table 2: Proportion of Grants for the Homeless Spent on Supportive Services Rather Than Assisted Housing in Fiscal Year 1996

Dollars in millions

Program	Total funds awarded	Percentage spent on supportive services
Single Room Occupancy	$47.8	0
Shelter Plus Care	88.7	0
Supportive Housing	576.6	63
Total	$713.1	51

Source: HUD's Office of Community Planning and Development.

HUD officials explained that they award the grants on the basis of the level of demand from grant applicants, and grantees have requested higher amounts for services than for housing. They also speculated that organizations may have difficulty obtaining needed services through other agencies and therefore may be using HUD's resources to fill the gap. HUD officials further commented that funding this need is consistent with the agency's Continuum of Care approach that seeks to end homelessness by bringing together all parts of the community to provide a coordinated system of care for homeless men, women, and children. In commenting on a draft of this testimony, the Department said that in all instances it encourages housing as the end result.

Initiative Would Provide Additional Housing but Might Benefit From More Detailed Planning

With its fiscal year 1999 budget request for $192 million to fund 34,000 new Section 8 vouchers for homeless individuals or families, HUD proposes to increase the amount of funding for direct housing assistance. These vouchers would be used to assist families that have achieved a sufficient level of independence to move to permanent housing that is linked to services. The vouchers are intended for homeless individuals and families who would otherwise have the greatest difficulty securing permanent housing resources, as determined through the approved Continuum of Care approach.

However, unlike the Department's fiscal year 1999 budget request for 50,000 new welfare-to-work vouchers, HUD's request for new vouchers for

[9]HUD's Homeless Assistance Grants program consolidates the activities of HUD's six McKinney homeless assistance programs (Supportive Housing, Single Room Occupancy, Shelter Plus Care, Emergency Shelter Grants, Safe Haven, and Rural Homeless Housing Assistance) and the Innovative Homeless Initiatives Demonstration program. Table 2 includes only competitive-based grants that were funded in fiscal year 1996.

the homeless does not describe the criteria that would be used to distribute the vouchers. For example, under HUD's welfare-to-work voucher proposal, any housing agency requesting permission to distribute vouchers must (1) prepare a plan that includes the criteria to be used to select the recipients and (2) describe the proposed strategy for counseling tenants, providing assistance in seeking housing, and reaching out to landlords. Furthermore, the agency must determine that obtaining tenant-based housing assistance is critical for the applicant to obtain or retain employment and that the applicant is not already receiving tenant-based assistance. If HUD developed similar requirements for the recipients of vouchers for the homeless, the program's implementation could likely begin shortly after the funding is received, strengthening the program's efficiency.

We believe that the lack of planning raises concerns about how quickly and effectively this program can be implemented. According to HUD, however, the program can be administered through its Continuum of Care grant process as well as through public housing authorities that are experienced in administering the Section 8 voucher program. Nevertheless, further details by HUD on how such a program will work would be useful in any debate on expanding the housing assistance provided to the homeless.

Key Report Underlying HUD's Regional Connections Initiative Does Not Recommend a Significant Federal Effort

HUD's fiscal year 1999 budget proposal includes $100 million for a new Community Development Block Grant (CDBG) set-aside—the Regional Connections Initiative (RCI). RCI is intended to help states and localities develop and implement strategic plans that address key regional issues facing the nation's metropolitan and rural communities. HUD is planning to award grants under the program to states and localities on a competitive basis. HUD's interest in developing a program designed to encourage and facilitate efforts to address regional issues seems justified in light of the Department's mission.

However, given that RCI is a new initiative, HUD's budget justification does not provide enough detail to determine whether $100 million is a reasonable funding level. Moreover, the key study (still in draft form) underlying this new initiative does not recommend a significant federal effort to address regional problems because little support for such an effort exists at the local and state levels at this time. In addition, the study concluded that in the future, emerging regional efforts could raise questions about the appropriate federal role. According to HUD officials,

the RCI funding level was a judgment call and was considered a manageable set-aside under the CDBG program.

In addition, HUD officials believe that the $100 million requested for RCI will be awarded in fiscal year 1999. However, several tasks need to be accomplished before these funds are committed, including selecting an RCI advisory board of community development experts, writing regulations for the program, developing a notice of funding availability, allowing applicants time to prepare their proposals, reviewing submitted applications, and deciding which applicants will receive RCI funds. To accomplish these tasks, HUD expects to use expertise from outside the Department to help design and review the RCI grant program in time to allow funds to be awarded in fiscal year 1999. Because of the tasks and coordination necessary, however, we question whether such an ambitious schedule is workable for this initiative.

HUD May Not Have the Capacity to Effectively Manage the HOPE VI Program

HUD is requesting $550 million for fiscal year 1999, primarily in the form of grants to public housing agencies, to fund the Severely Distressed Public Housing (HOPE VI) program. This appropriation will increase HUD's total investment in the program to over $3.7 billion since the program's inception in 1993. Our ongoing review of this program shows that some HOPE VI sites have made a great deal of progress towards revitalizing distressed public housing neighborhoods, while other sites have run into difficulties planning redevelopment work. Such difficulties were not unexpected because some of the most troubled housing agencies have been dealing with relocation, demolition, mixed finance, and other complicated social and financial issues. In all cases, the process of trying to fundamentally change the way the nation deals with public housing is complex.

Because of significant staffing reductions since 1995, we question whether HUD currently has the capacity to properly manage the HOPE VI program. HUD is currently managing the program "by audit," with teams of auditors from HUD's Office of Inspector General reviewing HOPE VI funding sites. As of March 17, 1998, HUD had 10 headquarters staff, including two grant managers, to deal with 81 grants in 55 cities. These figures reflect a reduction from the 15 headquarters staff, including six grant managers, overseeing 39 grants that totaled over $1.5 billion in 1995.

In 1997, HUD hired outside contractors to help develop management systems for overseeing the program. HUD has also begun hiring private

"expediters" to help PHAs understand and complete the HOPE VI process and has begun assigning some site oversight responsibilities to the remaining HUD field offices. But HUD still maintains responsibility for overseeing the day-to-day operations of this complex program. We question whether HUD has enough experienced people left to perform the daily management functions that are intrinsic to protecting taxpayers' interests.

While Potentially Significant, the Impact of Welfare Reform on HUD's Future-Year Budgets May Not Be Predictable

As welfare reform is implemented throughout the nation, it could have implications for HUD's budgets in future years. HUD estimates that one-third of the households receiving rental assistance from HUD depend on cash welfare assistance for some or all of their income. Under welfare reform, cash assistance programs became time-limited, work-dependent, and generally less available. Because residents pay a portion of their income for rent, any reduction in cash assistance without a commensurate increase in wage income would result in reduced rental payments from tenants. Managers at most of the 18 public housing agencies we visited while conducting our ongoing work expressed concern about barriers their residents face in finding employment within their states' time limits. Under the program's existing regulations, reductions in tenants' rental payments would increase the size of the payments that HUD makes to housing agencies and private landlords on behalf of low-income tenants to make up the difference between the tenants' rental payments and the housing units' operating cost or rent.

While welfare reform may have a significant impact on HUD's budgets in future years, measuring the potential impact may not be possible. One reason is that the impact of welfare reform will vary from state to state and from year to year because states have differing welfare reform provisions, making the development of national estimates of the impact of welfare reform on HUD nearly impossible. In Massachusetts, for example, recipients will begin to hit the state's time limits for cash assistance in December 1998, while in Minnesota, recipients will not reach the time limits until July 2002. A second reason is that conclusions drawn about welfare reform's impact on recipients generally may not apply to those who also receive housing assistance because evidence suggests that welfare recipients receiving housing assistance may have greater difficulty finding and retaining employment than other welfare recipients. Furthermore, HUD does not collect the detailed data on recipients' education, work, and welfare histories needed to assess likely outcomes for its tenants. Finally, while the general health of the economy is a major

factor in the recent decline in welfare caseloads, the future course of the economy cannot be predicted with any certainty.

Conclusion

While we believe that HUD is generally moving toward more supportable budget estimates, the Department continues to overestimate its budget needs. For instance, despite improvements to its budget-estimating process for Section 8 tenant-based assistance, HUD's fiscal year 1999 request for Section 8 tenant-based and moderate rehabilitation contract renewals and amendments could be overstated by as much as $691 million. Furthermore, in the Section 8 project-based program, HUD's budget estimate is not consistent with its analysis of amendment needs. As HUD continues to refine its analyses in these areas, it will have the opportunity to amend its budget estimate before the Congress votes on its appropriation bill in the fall. In addition, we found that for some initiatives—such as vouchers for the homeless and the Regional Connections Initiative—to be effective in fiscal year 1999, HUD may need to complete appropriate and perhaps ambitious planning. Finally, because the HOPE VI workload has doubled since 1995 and the program's staffing has decreased by one-third, we question whether HUD currently has the capacity to manage the $550 million it is requesting for HOPE VI.

Matters for Congressional Consideration

The Congress may wish to consider reducing HUD's request for Section 8 tenant-based and moderate rehabilitation contract renewals and amendments to account for (1) $182 million by which HUD overstated its moderate rehabilitation renewal needs, (2) $439 million of excess budget authority in the Section 8 moderate rehabilitation program that could offset new budget authority to renew expiring housing assistance contracts, and (3) $70 million HUD requested to fund amendments to Section 8 moderate rehabilitation contracts that may be offset by this excess budget authority.

In addition, the Congress may wish to consider reducing HUD's request for funding to amend Section 8 project-based contracts because (1) $500 million is in excess of the funds that HUD identified as actually needed for fiscal year 1999 and (2) current analyses indicate that recapture amounts are likely to be substantially higher than those identified in HUD's budget request. Finally, before appropriating $192 million for vouchers for the homeless and $100 million for HUD's Regional Connections Initiative, the Congress may wish to seek assurances from HUD that these programs will be ready to effectively commit funds.

Agency Comments

We provided a draft of this statement to HUD for its review and comment. HUD did not provide us with comments on our conclusion that the Department's budget estimate for its Section 8 tenant-based and moderate rehabilitation contract renewals and amendments could be overstated. The Department also did not comment on our conclusion that its request for funding for project-based contract amendments is overstated. However, the Department did provide comments on several issues, including its request for new Section 8 vouchers for the homeless, its Regional Connections Initiative, and its HOPE VI program. In response to our concerns about the planning accomplished for the first two of these programs, HUD said that it expects housing authorities to compete for and administer the vouchers for the homeless. And for the Regional Connections Initiative, HUD said that it recognizes that a limited number of localities and states are ready and willing to participate in this effort, but that the $100 million proposed funding will still accommodate a meaningful initiative. We made appropriate changes in the statement to reflect HUD's concerns; however, we continue to believe that the quality of planning for these new efforts will be critical to their effectiveness in fiscal year 1999.

In its comments regarding our concern about current staffing of the HOPE VI program, HUD recognizes that staffing is indeed lower now than it had been in the past, but stated that the Department plans to provide additional staff in the future for that program to enable it to adequately oversee all of the grants made to date.

Finally, HUD believes that our listing of initiatives and program enhancements in appendix I implies that new staff will be needed to administer these efforts. HUD stated that these initiatives, instead of being new programs, are expansions of existing programs and embellishments on well-functioning programs and, as such, will not need new staff. While we do not know whether new staff will be needed for these initiatives, we do believe that a number of them—such as the vouchers for the homeless and the Regional Connections Initiative—are new and will impose some additional burden on HUD.

New Initiatives and Program Enhancements in HUD's Fiscal Year 1999 Budget Request

Dollars in millions

	Budget authority	
Initiative or program enhancement	**Fiscal year 1998 enacted**	**Fiscal year 1999 request**
Public and Indian Housing		
Incremental rental assistance	$0	$60
Administrative fee bonus	0	[9][a]
Regional Opportunity Counseling	0	20
Incremental welfare-to-work vouchers	0	283
Tenant-protections administrative reserve	0	130
HOPE VI environmental review process expansion	0	0
Community Planning and Development		
Regional Connections Initiative	0	100
Community Empowerment Fund	[137][b]	400
Incremental vouchers for the elderly	0	50
HOME Loan Guarantee Program	0	11
Incremental vouchers for the homeless	0	192
Consolidation of housing for the elderly and disabled into the HOME program	839	283
Homeownership Zones	0	25
Homeownership empowerment vouchers	0	0
Housing Programs		
Increased FHA loan limits	0	0
Policy Development and Research		
Technology Advancement Partnerships	0	10
Office of Lead-Based Paint and Poisoning Prevention		
Healthy Homes Initiative	0	25
Fair Housing and Equal Opportunity		
Fair Housing Rights Educational Campaign	0	0-19
Adjustments		
Single-Family Property Disposition reform	0	(527)
Mark-to-market equity sharing	0	(50)
Mandatory Programs		
Empowerment Zones	0	150
Management and Administration		
Provision to use up to 1 percent of program appropriations for evaluation, monitoring and data collection	0	15

(Table notes on next page)

[a]The $9 million is a set-aside within the $60 million for incremental assistance.

[b]The Community Empowerment Fund's predecessor, the Economic Development Initiative, was funded as a $37 million set-aside within the Community Development Block Grant Fund in fiscal year 1998. The remaining $100 million was earmarked for Special Purpose Grants.

Source: GAO analysis of HUD's fiscal year 1999 budget request.

Public and Indian Housing

•Incremental rental assistance: HUD is requesting $60 million to provide 10,655 new certificates and vouchers. This assistance will be used for various Section 8 programs, including the family unification, portability reimbursement, and witness relocation programs and the settlement of litigation. HUD intends to set aside $9 million of the $60 million to fund a new administrative fee bonus, which will reduce the number of incremental units it can provide.

•Administrative fee bonus: HUD is requesting $9 million to provide administrative fee bonuses to housing agencies that reduce the concentration of poor families through the use of portable tenant-based assistance. According to HUD, the bonus will encourage housing agencies to make additional efforts to reach out to landlords in low-poverty areas.

•Regional Opportunity Counseling: HUD is requesting $20 million in new funding for Regional Opportunity Counseling—an evolution of the Section 8 Counseling Program last funded in fiscal year 1995. The purpose of regional opportunity counseling is to reduce concentrations of poverty by providing funds to collaboratives consisting of housing agencies and nonprofit counseling agencies. HUD intends to use the $20 million to help an estimated 13,000 families in 10 to 20 metropolitan areas. We did not assess HUD's estimate.

•Incremental welfare-to-work vouchers: HUD is requesting $283 million to provide 50,000 new welfare-to-work vouchers. HUD intends to use these vouchers to assist welfare recipients who need housing assistance to obtain or maintain employment as they move from welfare to work.

•Tenant-protections administrative reserve: HUD is requesting $130 million to accommodate the more aggressive enforcement activities of the Department, including the cost of relocating affected families, and to address the potential need to modify current assistance payment standards and eligibility to avoid undue hardship or displacement of currently assisted families. Tenant-protection set-asides are used, in part,

to support eligible families who, through no fault of their own, are affected by HUD's management of its inventory of multifamily properties.

•HOPE VI environmental review process expansion: HUD is requesting authorization through the appropriations bill to extend 24 C.F.R. part 58 of the environmental review process to the HOPE VI program. The HOPE VI program is currently subject to 24 C.F.R. part 50, which requires that HUD staff conduct the environmental reviews. All of the other public housing programs are governed by part 58, which authorizes the Department to have local governments prepare the environmental reviews subject to HUD's concurrence.

Community Planning and Development

•Regional Connections Initiative: HUD is requesting $100 million for a new Community Development Block Grant set-aside—the Regional Connections Initiative (RCI). RCI is intended to help states and localities develop and implement strategic plans that address key regional issues facing the nation's metropolitan and rural communities.

•Community Empowerment Fund: HUD is requesting $400 million for a Community Empowerment Fund, an enhancement of its existing Economic Development Initiative and Section 108 Loan Guarantee program. HUD describes this fund as a creative financing tool that will combine local control, private sector capital, and federal loan guarantees to rebuild distressed urban and rural communities. According to HUD's budget documents, the $400 million requested will leverage an estimated $2 billion in private-sector loans over time and will support an estimated 280,000 jobs when projects are completed. The private sector loans will be supported by HUD's Section 108 Loan Guarantee Program.

•HOME Loan Guarantee Program: HUD is requesting $11 million to establish a new HOME Loan Guarantee Program. This loan guarantee feature will permit participating jurisdictions to leverage up to five times their current HOME allocation in private-sector funding to finance large-scale development and other activities. According to HUD, the funding will support $100 million in new loan guarantees.

•Consolidation of housing for the elderly and disabled into the HOME program: HUD is proposing to shift the administration of housing for the elderly and disabled from HUD to state and local governments through the HOME program and, at the same time, cut funding for the elderly and disabled by $556 million. HUD maintains that shifting the Section 202 and

Section 811 programs for the elderly and disabled into the HOME program will allow the Department to further consolidate its program structure and provide substantial opportunities for state and local participating jurisdictions to leverage additional resources for housing the elderly and disabled.

•Incremental vouchers for the elderly: HUD is requesting $50 million to provide 8,800 new Section 8 vouchers for the elderly. HUD proposes to use these vouchers to replace direct grant funding, which HUD believes will allow the Department to serve a greater number of elderly households with more limited resources.

•Incremental vouchers for the homeless: HUD is requesting $192 million to provide 34,000 new Section 8 vouchers for homeless individuals and families. These vouchers will be used to assist families who become sufficiently independent to move to permanent housing that is linked to services.

•Homeownership Zones: HUD is requesting $25 million to fund a new round of five to seven homeownership zones to enable cities to undertake large-scale single-family developments in inner-city neighborhoods. HUD maintains that the $25 million in grant funds will create about 1,500 new homeowners. We did not assess HUD's estimate.

•Homeownership empowerment vouchers: HUD is proposing to allow families to use Section 8 assistance as "empowerment vouchers" to become first-time homebuyers; the current Section 8 program does not allow subsidies to be used to pay a mortgage. Under HUD's proposal, a family must have income from employment and must make a contribution toward its own down payment.

Housing Programs

•Increased FHA loan limits: HUD is proposing to raise the home mortgage insurance limits used by FHA. In particular, HUD proposes to replace over 250 separate loan limits, ranging from $86,317 to $170,362, with a single, nationwide limit of $227,150. According to HUD, the higher ceiling (1) could enable about 3 million more families to qualify for FHA mortgages over the next 5 years and (2) will provide FHA with an increase in revenue of more than $200 million per year through the insurance premiums and fees associated with new mortgage business. We did not evaluate HUD's estimates.

Policy Development and Research

•Technology Advancement Partnerships: HUD is requesting $10 million to fund a public/private partnership designed to accelerate the creation and use of advanced technologies in order to significantly improve the quality, durability, environmental efficiency, and affordability of tomorrow's homes. HUD has been selected to lead this effort, which will join together key federal agencies, such as HUD and the Environmental Protection Agency, and leaders from the home building and product manufacturing industries.

Office of Lead-Based Paint and Poisoning Prevention

•Healthy Homes Initiative: HUD's fiscal year 1999 budget request includes $25 million to address housing-related childhood diseases and injuries. In 1999, HUD plans to, among other things, demonstrate and test new housing maintenance techniques, fund home inspections, and assess renovation and construction methods.

Fair Housing and Equal Opportunity

•Fair Housing Rights Educational Campaign: HUD is proposing to use up to $19 million of the $29 million it is requesting for the Fair Housing Initiatives Program to fund a Fair Housing Rights Educational Campaign designed to inform Americans about their legal rights and responsibilities under the Fair Housing Act and to provide them with assistance when confronted by illegal discrimination.

Adjustments

•Single-family property disposition reform: HUD is proposing legislative reform for its single-family property disposition program that would produce savings of $527 million in fiscal year 1999. Under the proposal, HUD would pay lenders' claims earlier, thereby paying less in accrued interest, and sell the mortgage notes to third parties for specialized servicing.

•Mark-to-market equity sharing: HUD is proposing a $50-million reduction to its budget request to reflect mark-to-market equity sharing savings. HUD is proposing to repeal sections 513(b)(7)(g) and 517(d) of the Multifamily Assisted Housing Reform and Affordability Act of 1997. Section 513(b)(7)(g) prohibits any private entity from sharing, participating in, or otherwise benefiting from any equity created, received, or restructured as a result of a portfolio restructuring agreement. Section 517(d) prohibits the Secretary from participating in any equity-sharing or profit-sharing arrangement. We did not evaluate HUD's savings proposal.

Mandatory Programs

•Empowerment Zones: HUD is requesting $150 million—the first of 10 equal installments for a total of $1.5 billion—as a mandatory expenditure under the authority of title XX of the Social Security Act for urban empowerment zones (EZ). Each of the 15 new EZs authorized under the Taxpayer Relief Act of 1997 would receive up to $100 million under this proposal. Among other things, the Taxpayer Relief Act extended the EZ initiative that was established under the Omnibus Budget Reconciliation Act of 1993 by increasing the number of EZs and providing tax incentives for use by businesses in the new EZs. However, the 1997 act did not provide grants for the new EZs. According to HUD budget officials, the administration is drafting legislation that would designate Social Service Block Grant funds as the source of funding for the new EZs.

Management and Administration

•Provision to use up to 1 percent of program appropriations for evaluation, monitoring, and data collection: HUD's fiscal year 1999 budget request includes a provision for the Department to transfer up to 1 percent of the amount appropriated in most program accounts to the "Departmental Salaries and Expenses" account. HUD intends to use this funding to (1) evaluate and monitor programs and (2) collect and maintain data related to the Government Performance and Results Act (GPRA). HUD currently estimates that it will need $15 million to meet the requirements of GPRA.

Increases in Existing Programs Included in HUD's Fiscal Year 1999 Budget Request

Dollars in millions

	Budget authority		
Program/Initiative	**Fiscal year 1998 enacted**	**Fiscal year 1999 request**	**Increase**
Public and Indian Housing			
Section 8 amendments	$850	$1,337	$487
Tenant protections/replacement certificates	303	373	70
Public Housing Capital Fund	2,500	2,550	50
Indian Housing Loan Guarantee Fund program account	5	6	1
Indian Housing Loan Guarantee Fund limitation	[62]	[69]	[7]
Community Planning and Development			
Community Development Block Grant Fund	4,674	4,725	51[a]
Brownfields Redevelopment Program	25	50	25
HOME Investment Partnerships Program	1,500	1,550	50
Homeless Assistance Grants	823	958	135
Housing Opportunities for Persons With AIDS	204	225	21
Youthbuild	[35][b]	45	45
Housing Programs			
Housing Counseling Assistance	[20][c]	[25][c]	[5][c]
FHA Mutual Mortgage Insurance and Cooperative Management Housing Insurance Funds program account	338	529	191
FHA General Insurance and Special Risk Insurance Funds program account administrative expenses	222	315	93
FHA General Insurance and Special Risk Insurance Funds mortgage insurance limitation	[17,400]	[18,100]	[700]
Government National Mortgage Association			
Mortgage-Backed Securities Guarantee limitation	[130,000]	[150,000]	[20,000]
Policy Development and Research			
Research and technology	37	40	3
Office of Lead-Based Paint and Poisoning Prevention			
Lead-based paint hazard reduction	[60][b]	85	85
Fair Housing and Equal Opportunity			
Fair Housing Assistance Program	15	23	8
Fair Housing Initiatives Program	15	29	14
Total increase			1,329

(Table notes on next page)

Note: Bracketed amounts are not included in the total.

[a]According to HUD, this $51 million proposed increase in Community Development Block Grant funding, when combined with reduced set-asides in the program, would effectively increase the program's funding by $238 million in fiscal year 1999.

[b]These programs were set-asides within the Community Development Block Grant Program in fiscal year 1998.

[c]Housing Counseling Assistance is funded as a set-aside within the HOME program.

Source: GAO's analysis of HUD's fiscal year 1999 budget request.

Objective, Scope, and Methodology

The Chairman and Ranking Minority Member of the Subcommittee on VA, HUD, and Independent Agencies, House Committee on Appropriations, requested that we assess the reasonableness of selected aspects of HUD's fiscal year 1999 budget request. To accomplish this task, we reviewed HUD's February 1998 Congressional Justifications for 1999 Estimates. We also interviewed appropriate officials in HUD's Offices of the Chief Financial Officer, Public and Indian Housing, Housing, and Community Planning and Development to obtain more information on planned uses for funding requested. When available, we reviewed this additional information. Finally, we based portions of this statement on our recently issued report on HUD's financial management of its Section 8 tenant-based program as well as on our current work focusing on HUD's financial management of the Section 8 moderate rehabilitation and project-based programs, the HOPE VI program, and the impact of welfare reform on public and assisted housing.

We conducted our work in February and March 1998 in accordance with generally accepted government auditing standards.

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