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HOUSING AND URBAN DEVELOPMENT

Comments on HUD's Fiscal Year 2000 Budget Request

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Mr. Chairman and Members of the Subcommittee:

We are here today to testify on the fiscal year 2000 budget request of the Department of Housing and Urban Development (HUD). We understand that the resources available to the Congress to support our nation's myriad housing and community development needs cannot adequately address all needs. However, we also believe that the resources the Congress makes available to HUD should be used as wisely as possible and that HUD's programs should reflect a national consensus on the best approaches to meeting housing and community development challenges. For this reason, in reporting our work on HUD's budget requests over the past several years, we have sought to highlight for the Congress program requests from HUD that either do not provide sufficient justification to enable the Congress to make a rational choice or do not require new budget authority because of available unexpended funding provided in prior years.

We have been requested by the House and Senate Appropriations Subcommittees responsible for HUD to identify areas in which HUD's budget justification is insufficient or in which unexpended funds might offer the opportunity to rethink the need for new appropriations. Having received HUD's fiscal year 2000 budget justification materials only about 2 weeks ago, we have just begun our analysis. Nevertheless, we have begun our initial review with a particular focus for this hearing on the proposal's new programs or initiatives. Specifically, we will discuss (1) new initiatives or significant increases proposed by HUD and (2) our observations about HUD's request for funding related to several areas we have reported on in the past year.

In summary, we will make the following points about HUD's budget proposal:

- To support 19 new programs and initiatives, HUD is requesting nearly $731 million of its $28-billion total request for fiscal year 2000. In each case, the Congress did not provide funding for the activity in fiscal year 1999, although in some cases the program has been funded in prior years. We are concerned about HUD's overall capacity to plan for, administer, and oversee this many new programs, particularly when HUD itself is undergoing significant organizational reform and when some of the new initiatives are in areas, such as contracting, in which HUD's performance has been questioned in the past.
- One of the most significant increases in HUD's current programs for fiscal year 2000 is a $1 billion increase in its Section 8 rental housing assistance

program. HUD would use these additional funds to renew expiring contracts in both the tenant-based and project-based portions of this program. However, the budget does not provide sufficient information to evaluate this request. We believe a number of associated issues exist that warrant review, including the extent to which HUD has used unexpended balances to offset its request, the basis for the Section 8 contract renewal costs, and the rationale for the $4.2 billion advance appropriation for fiscal year 2001 requested in the fiscal year 2000 budget request.

- Currently, HUD's tracking and oversight of its Community Development and Planning grants are made difficult because information in its grants management information system is unreliable. Unreliable information diminishes HUD's capacity to administer and monitor new initiatives in this program area. Although HUD plans to replace the current system for managing and tracking Community Development Block Grants, a new system is several years away from implementation. In the meantime, HUD's fiscal year 2000 budget request proposes to continue adding set-asides to the block grant. However, HUD cannot be assured that financial tracking of the individual grants and grantees will be adequate.
- In one of its largest new initiatives, HUD is requesting over $200 million in fiscal year 2000 to fund contract administrators for the contracts it has with owners of multifamily properties in HUD's project-based Section 8 housing assistance program. However, work that we, [1] HUD's Inspector General, and the National Academy of Public Administration have done in the past on HUD's contracting activities identified weaknesses in HUD's ability to administer contracts and monitor contractors' performance. HUD's budget request states that having contract administrators will give HUD field staff more time to perform program management functions. However, we believe that the success of this program will depend on the adequacy of HUD's contract selection, administration, and oversight of these contracts. The Congress needs to seek assurances from HUD that it has the capacity to perform these functions for such a large initial contracting endeavor.
- HUD is proposing both a new initiative and a program increase in the area of empowerment zones. The Department also is requesting two set-asides in the Community Development Block Grant Program for empowerment zones. These proposals raise questions about how the programs will coordinate with and benefit from each other because they target similar beneficiaries.

[1] HUD Management: Contracting Issues Need Continued Attention (GAO/T-RCED-98-222, June 5, 1998).

HUD's Fiscal Year 2000 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 related to areas such as lead-based paint abatement and fair housing. To carry out its many responsibilities, HUD was staffed by 9,386 employees as of February 1999.

- Housing Assistance: HUD provides (1) public housing assistance through allocations to public housing authorities and (2) private-market housing assistance under section 8 of the U. S. Housing Act of 1937 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 the states, large metropolitan areas, small cities, towns, and counties, HUD provides community planning and development funds for local economic development under its Community Development Block Grant (CDBG) and Empowerment Zone/Enterprise Community Programs (EZ/EC), housing development under its HOME Program, and assistance to the homeless under its McKinney Act Homeless Programs. 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.

The Congress supports HUD's programs through annual appropriations that are subject to spending limits under the Budget Enforcement Act, as amended.

For fiscal year 2000, HUD is proposing a total budget of about $28 billion in new discretionary budget authority, which, in combination with available budget authority from prior years, will help support about $34 billion in discretionary outlays.[2] This request represents a 9-percent increase in budget authority over fiscal year 1999. In its Fiscal Year 2000 Budget Summary, HUD states that its proposed budget will allow the renewal of all Section 8 rental assistance contracts, increases to virtually all program areas, and continued increases to programs, such as CDBG and Homeless, that address communities' worst case needs. The summary also states that many program enhancements will be initiated, and, as we discuss below, HUD proposes to fund many set-asides within existing programs.

New Programs and Increases in Existing Programs

HUD's fiscal year 2000 budget request includes 19 new initiatives and programs that were not funded during fiscal year 1999. Some, however, may have been funded in prior years. These fall under various programs, including Community Development and Planning, Public and Indian Housing, and Housing Programs. This request includes seven set-asides totaling $210 million. Five of the set-asides ($60 million) will be funded within the CDBG Program and two ($150 million) in the HOME Program. See appendix I for a list of the proposed fiscal year 2000 initiatives and their status in fiscal year 1999. We also note that HUD's fiscal year 2000 request includes significant funding increases in several ongoing programs, including Section 8 contract renewals. See appendix II for a list of these programs.

While the budget impact—a net increase of about 9 percent in new budget authority—of the new programs and increases to existing programs that HUD proposes is not overwhelming, the proposed budget does raise questions about HUD's capacity to manage such an increase. Questions arise for two reasons: First, HUD is currently going through a significant, complex, and time-consuming organizational reform in which many functions that it once managed in many field offices will be managed in one or more "centers" in various parts of the country. This reform is necessary to improve the efficiency and effectiveness of HUD's operations and to address long-standing yet basic problems in program management. To accommodate this reform, HUD is moving and retraining many of its staff. Second, new initiatives and programs require a certain amount of dedicated resources to plan, implement, and manage over the long term. It is questionable whether these resources are available at this point in the

[2]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.

reinvention of HUD. Therefore, we are concerned about whether HUD has the capacity to effectively initiate and oversee the set of new programs it is proposing for fiscal year 2000 while it is also trying to develop for itself a new operating style and way of doing business.

The Details of HUD's Project-Based Section 8 Program Are Not Clearly Explained in the Budget Proposal

One of the largest program increases in HUD's fiscal year 2000 budget proposal is in its Section 8 housing assistance program (see app. II). [3] For the past few years, we have reviewed the accuracy of HUD's budget proposals for the tenant-based and project-based components of this program and have found many inconsistencies. For example, in July 1998, we reported that the Department had not identified all available Section 8 project-based unexpended balances and accounted for them in its budget process.[4] As a result, HUD requested $1.3 billion in its fiscal year 1999 request for project-based funding that it did not need to cover shortfalls in current contracts.

To remedy such overstatements, we recommended that HUD's future funding requests for the Section 8 program—both the tenant-based and the project-based components—fully consider unexpended balances that may be available to offset funding needs. HUD has improved its annual review of unexpended balances. Although HUD's budget justification shows that funding needs to cover contract shortfalls will be met by existing unexpended balances, it does not identify the estimated funding shortfall or the amount of unexpended balances available in each of the project- and tenant-based components. As a result, we cannot assess the extent to which the Department's budget request includes the use of unexpended project-based balances. Therefore, we have requested information from HUD on its shortfall estimates and on the unexpended balances that may be available to fund these shortfalls. Balances in excess of those needed to fund shortfalls could be used to offset HUD's request for contract renewal funding.

HUD's fiscal year 2000 budget justification raises other issues about its Section 8 program request that we believe warrant review. These issues include the basis for the contract renewal costs for the Section 8 project-based program for fiscal year 2000—more than $3 billion—as well as the basis for renewal costs beyond 2000. The budget proposal shows

[3]Section 8 tenant-based rental assistance is provided to specific individuals, while project-based assistance is provided to specific housing units.

[4]Section 8 Project-Based Rental Assistance: HUD's Processes for Evaluating and Using Unexpended Balances Are Ineffective (GAO/RCED-98-202, July 1998).

that HUD's estimates of the unit costs of some project-based housing are substantially higher than HUD projected just a year ago. Moreover, unlike prior years, HUD's fiscal year 2000 budget does not provide estimates of Section 8 costs in the years following 2000. Therefore, we have requested information that would support HUD's assumptions and source data for both the number of units and average unit costs for this program in fiscal year 2000 and for several years thereafter. We also believe that the basis for the substantial increase in total Section 8 project-based and tenant-based outlays—$2.5 billion[5]—should be examined, as well as HUD's rationale for the $4.2 billion advance appropriation for fiscal year 2001 requested in the fiscal year 2000 budget request.

Community Development Block Grants May Not Be Sufficiently Reported and Considered for Budget Request Offsets

HUD's CDBG Program provides communities with grants for activities that will benefit low- and moderate-income people, prevent or eliminate slum or blight, or meet urgent community need.[6] While CDBG is largely allocated on a formula basis, funds are also set aside for specific purposes such as Community Outreach Partnership, Hispanic Serving Institutions, and Historically Black Colleges and Universities. HUD's fiscal year 2000 budget request for the CDBG Program proposes set-asides for 10 projects or initiatives totaling about $428 million. Of the 10 set-asides, half are for new initiatives totaling about $60 million. These new set-asides include Metropolitan Job Links, Homeownership Zones, EZ/EC Technical Assistance, EZ Round II Planning and Implementation, and a Citizens Volunteer Housing Corps.

The CDBG Program is HUD's most flexible tool for assisting communities to meet local development priorities. To help monitor it and other formula grant programs like HOME and Housing Opportunities for Persons With AIDS, HUD developed the Integrated Disbursement and Information System (IDIS) to provide current information on how grantees are using federal funds and what they are achieving with those funds. However, our recent work shows that IDIS, as implemented, does not provide detailed performance information. Also, because of its design, the information in IDIS is incomplete, inaccurate and untimely. Many states are apprehensive about using the problem-plagued system and plan to adopt it only if forced to do so by law. To broaden IDIS, HUD plans a replacement system, called the Departmental Grants Management System that HUD plans to design to

[5]This figure can be found on page P-1 of HUD's budget justification, dated February 1999, for its fiscal year 2000 budget proposal.

[6]Economic Development Activities: Overview of Eight Federal Programs (GAO/RCED-97-193, Aug. 28, 1997)

track every grant. However, HUD plans to convert the current version of IDIS for use in the new grants management system, which may occur over the next several years. Also of immediate concern is the fact that IDIS is not secure, which opens up the possibility of unapproved access to program funds.

Because of the poor quality of information in IDIS and a replacement system not being readily available, we are concerned that the activities and projects under CDBG may not be sufficiently reported and considered for budget request offsets. This is of particular concern because past budget requests show that actual CDBG unobligated balances have been increasing at a rate well over $50 million annually since fiscal year 1996. Moreover, in 1998, the authority to use about $7.6 million in CDBG funds expired. Although a reasonable explanation for this expiration may exist, we would not expect funds to expire without benefiting grantees, given the flexibility for the uses of CDBG funds and the discretion grantees have for their use.

The Success of HUD's New Contract Administration Program Depends on Adequate Contract Selection, Administration, and Oversight

Contract Administration is a new initiative in fiscal year 2000 under HUD's Housing Certificate Fund. HUD is requesting $209 million for this program, of which $42 million will be available to contractors who have not formerly participated in this activity. According to HUD, the use of contract administrators to manage project-based Section 8 housing assistance contracts will relieve HUD field staff of many duties they currently perform in this regard, allowing them to concentrate on their direct responsibilities, such as monitoring program effectiveness and ensuring that property owners are accountable for the rental subsidy payments they receive. Duties to be shifted to the new contract administrators include conducting annual physical inspections of the properties, reviewing project financial statements, and verifying tenants' income and eligibility for program rental assistance benefits. HUD's Section 8 Financial Management Center would oversee the work of contract administrators, and the Department would select contract administrators through a competitive procurement process.

However, because of the documented weaknesses in HUD's contracting practices in other areas, we question whether HUD is prepared to administer a new contracting initiative of this size. We, HUD's Inspector General, and the National Academy of Public Administration have cited weaknesses in HUD's contracting and procurement practices: inadequate oversight of contracted services because of a lack of skilled, trained staff; workload imbalances; and unclear duties, time frames, costs, and

products. In addition, the Department has been under an investigation by its Inspector General for allegations of improper contract solicitation and administration of its contracts in the Department's Note Sales program. Therefore, we believe that to ensure the success of HUD's contracting for the new Section 8 contract administration initiative, HUD may need to provide some assurances to the Congress that the Department will have an adequate administrative structure and sufficient staffing in place to provide proper oversight of a new contracting program of this magnitude.

Empowerment Zone Initiatives and Increases Raise Questions

HUD is also proposing an increase in its EZ Program. HUD's $150 million request for Urban Empowerment Zones includes $45 million that would be distributed to the 15 communities that were designated as Strategic Planning Communities. These communities, which submitted applications for Round II EZ designation but were not chosen, could use the funds to support activities proposed in their EZ applications. Eligible activities include those covered by HUD's CDBG and the Social Services Block Grant Program administered by the Department of Health and Human Services. However, under CDBG, HUD has already included a $10 million set-aside for meritorious communities that applied for Round II EZ designation but were not chosen. It is unclear why HUD needs to fund the same communities with two different programs.

Agency Comments

We provided a draft of this statement to HUD for its review and comment. Departmental officials, including HUD's Chief Financial Officer, provided comments on several issues, including the number of programs or new initiatives that we listed and categorized as new for fiscal year 2000. HUD officials stated that programs that were funded in the past, such as Section 8 vouchers, should not be considered new, although they meet our criterion of not receiving funding in fiscal year 1999. We have included these programs because our purpose in listing new programs and initiatives is to provide an indication of the additional workload HUD may have in the approaching year. We believe that a 1 or more year break in a program's funding can create administrative workload, even though the Department retains programmatic expertise among its staff and contractors. HUD officials also suggested that we check some of the budget figures that we reported in the statement. We did so and made adjustments where necessary.

This concludes my prepared testimony, Mr. Chairman. I would be happy to respond to any questions that you or the Members of the Subcommittee might have.

New Programs and Initiatives[a] in HUD's Fiscal Year 2000 Budget Request

Dollars in millions

Initiative or Program Enhancement	Notes	Budget Authority [b] FY 1999 enacted	FY 2000 request
Community Planning and Development			
Metro Job Links	Set-aside[c]	$0	$[10]
Homeownership Zones	Set-aside[c]	0	[25]
EZ/EC Targeted Technical Assistance	Set-aside[c]	0	[10]
EZ Round II Planning and Implementation Grants	Set-aside[c]	0	[10]
Citizens Volunteer Housing Corps	Set-aside[c]	0	[5]
Regional Connections		0	50
Regional Empowerment Zone Initiative		0	50
America's Private Investment Companies Credit Subsidy		0	37
America's Private Investment Companies Guarantee Commitment Limit		0	{1,000}[d]
Homeless Multi-Agency Demonstration		0	5
Incremental Vouchers for the Homeless	18,000 vouchers	0	[104]
Regional Affordable Housing Initiative		0	[25]
Redevelopment of Abandoned Buildings		0	50
Public and Indian Housing			
Contract Administration		0	209
Incremental Rental Assistance	42,000 vouchers	0	243
Youth Anti-Drug Diversion Program (Drug Elimination Grant Program)		0	[100]
Housing Programs			
Elderly Capital Grants/Assisted Living	Set-aside[e]	0	[100]
Service Coordinators	Set-aside[e]	0	[50]
Mandatory Program			
Low Income Housing Tax Credit Vouchers for the Elderly	15,000 vouchers	0	87
Total of Line Items Not in Brackets			731

(Table notes on next page)

[a]For this table, GAO defined new programs and initiatives as any program or initiative that the Congress did not fund in fiscal year 1999. However, some of these programs or initiatives may have been funded in prior years.

[b]Brackets around a table entry indicate that a program is either a set-aside under another program or its funding is included within the funding total of another program in HUD's budget request.

[c]These set-asides are proposed within the Community Development Block Grant program.

[d]Guarantee Commitment Limits — no budgetary authority is requested for this line item.

[e]These set-asides are proposed within the HOME Investment Partnership Grant program.

Source: HUD's FY 2000 Budget Justification

Increases in Existing Programs Included in HUD's Fiscal Year 2000 Budget Request

Dollars in millions

Program/Initiative	FY 1999 enacted	Budget authority [a] FY 2000 request	Increase
Community Planning and Development			
Community Development Block Grant Fund	$4,750	$4,775	$25
Youthbuild	[43]	[75]	[32]
Homeless Assistance Grants	975	1,020	45
Housing Opportunities for Persons with AIDS (HOPWA)	225	240	15
HOME Investment Partnership Program	1,600	1,610	10
Brownfields Redevelopment Program	25	50	25
Public and Indian Housing			
Regional Opportunity Counseling	10	20	10
Public Housing Operating Fund	2,818	3,003	185
Section 8 Renewals/Amendments	9,599	10,640	1,041
Administrative Fee Increase	N/A[b]	6	N/A[b]
Housing Programs			
Housing Counseling Assistance (funded in HOME)	[18]	[20]	[2]
FHA Mutual Mortgage Insurance and Cooperative Management Housing Insurance Funds program account	329	491	162
Mortgage Insurance Limitation in FHA's Mutual Mortgage Insurance and Cooperative Management Housing Insurance Funds	{110,000}[c]	{120,000}	{10,000}
Government National Mortgage Association			
Mortgage-Backed Securities Guarantee program account	9	15	6
Mortgage-Backed Securities Guarantee limitation	{150,000}	{200,000}	{50,000}
Policy Development and Research			
Research and Technology	38	40	2
Fair Housing and Equal Opportunity			
Fair Housing Assistance Program	17	20	3
Fair Housing Initiatives Program	23	27	4
Management and Administration			
Salaries and Expenses	535	559	24
Mandatory Programs			
FHA General Insurance and Special Risk Insurance Funds Liquidating	46	1,164	1,118
Manufactured Home Inspection and Monitoring	15	16	1
Urban Empowerment Zones	45	150	105

(Table notes on next page)

[a]Brackets around a table entry indicate that a program is either a set-aside under another program or its funding is included within the funding total of another program line item in HUD's budget request.

[b]The administrative fee is paid to public housing authorities that administer the Section 8 tenant-based assisted housing program and is included in the baseline unit cost for the Section 8 Tenant-Based program. Therefore, the exact amount of the aggregate fee is unknown.

[c]Guarantee Commitment Limits - not budgetary authority.

Source: HUD's FY 2000 Budget Justification

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