



RURAL HOUSING SERVICE

Standardization of Budget Estimation Processes Needed for Rental Assistance Program

Highlights of [GAO-04-424](#), a report to the Ranking Minority Member, Subcommittee on Agriculture, Rural Development, and Related Agencies, Senate Committee on Appropriations

Why GAO Did This Study

The Rural Housing Service's (RHS) Section 521 Rental Assistance Program provides rental subsidies to about 250,000 rural tenants. With an annual budget of over \$700 million, the program is RHS's largest line-item appropriation, accounting for approximately 70 percent of the agency's budget. In early 2003, RHS reported hundreds of millions of dollars in unexpended balances, primarily tied to 5- and 20-year contracts issued from 1978 through 1982. Concern has arisen that these unexpended balances may be the result of the agency's budget practices, especially its procedures for estimating funding needs. GAO was asked to assess the accuracy of RHS's budget estimates for the rental assistance program, the activity level of rental assistance contracts issued from 1978 through 1997, and the activity level of rental assistance contracts issued from 1998 through 2002 and the accuracy of RHS's estimates of the rate at which these funds would be used.

What GAO Recommends

To more accurately estimate rental assistance budget needs, GAO recommends that the Secretary of Agriculture require program officials to use and correctly apply the inflation rates provided by the Office of Management and Budget (OMB) in its annual budget estimation processes. The Department of Agriculture and OMB commented on a draft of this report.

www.gao.gov/cgi-bin/getrpt?GAO-04-424.

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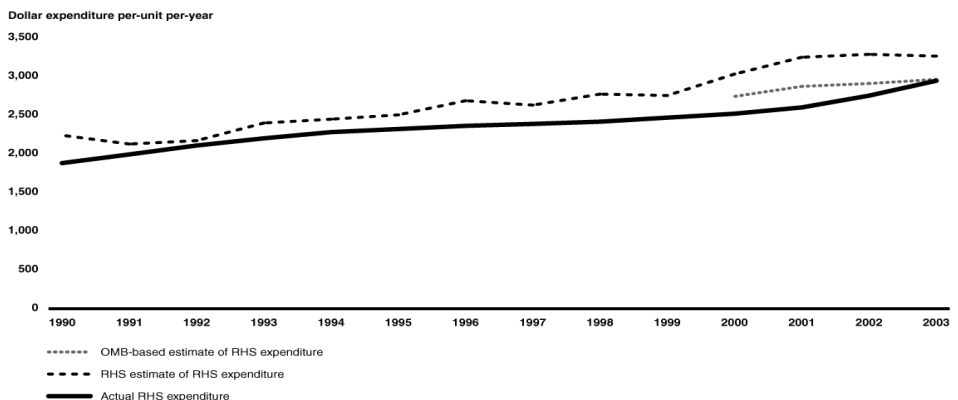
What GAO Found

RHS is overestimating its budget needs for 5-year rental assistance contracts in three ways. First, the agency uses inflation factors that are higher than those OMB recommends for use in the budget process. Second, RHS does not apply its inflation rate separately to each year of a 5-year contract, but instead compounds the rate to reflect the price level in the fifth year and applies that rate to each contract year. Using these first two methods, RHS overestimated its 2003 budget needs by \$51 million (6.5 percent). Third, RHS bases its estimates of future expenditure rates on recent maximum expenditures, rather than on the average rates at which rental assistance funds are expended. RHS has begun the process of automating its budget processes and certain aspects of its new model promise improvements over the current estimating methods. However, the agency continues to use its own inflation rates and incorrectly calculates those rates in such a way that would cause the agency to actually underestimate its budget needs.

At current spending rates, it will take another 7 years for all the active contracts that were issued from 1978 through 1982 to expend their funds, 8 years after the last of the 20-year contracts were expected to expire. Contracts issued from 1983 through 1997 should expend their remaining funds in 2004. GAO calculated that RHS overestimated its funding needs for contracts issued from 1998 through 2002 by an average of about 8 percent each year. GAO analysis of rental assistance payment data showed that the agency has overestimated its budget needs almost every year since 1990, the earliest year for which GAO gathered data. Where GAO had sufficient data from the agency, the analysis also shows that if RHS had used and correctly applied OMB inflation rates to its base per-unit rates, its estimates would have been closer to actual expenditures.

Standardizing the agency's budget estimation processes would help the agency more accurately estimate its rental assistance needs and curtail future unexpended balances or budget shortfalls.

Actual v. Estimated Rental Assistance Expenditures Per-Unit Per-Year, from 1990 through 2003



Source: GAO analysis of RHS data.