



Highlights of [GAO-04-752](#), a report to congressional requesters

RURAL HOUSING SERVICE

Agency Has Overestimated Its Rental Assistance Budget Needs over the Life of the Program

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 through 5-year contracts with project owners; 20-year contracts were also issued from 1978 through 1982. 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. Since contracts remain active until all funds are expired, some of these contracts will likely last as long as 38 years. GAO was asked to assess (1) the activity level of rental assistance contracts issued from 1978 through 1997 that have unexpended balances and the possibility of deobligating these balances, and (2) 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. The Department of Agriculture commented on our responses to these questions.

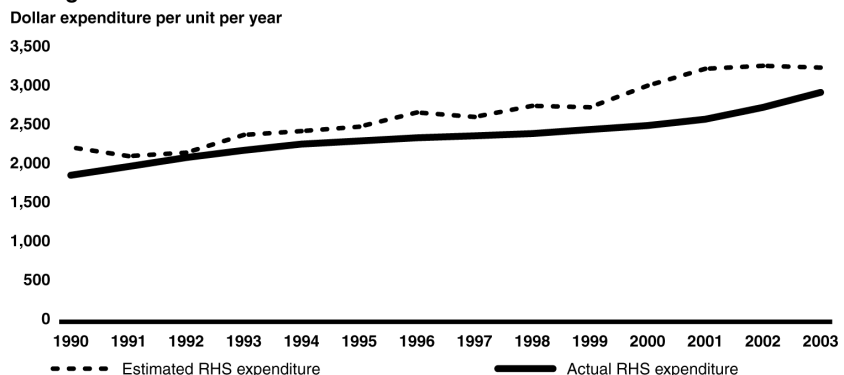
What GAO Found

Based on their age, contracts (both 5 and 20 year) issued from 1978 through 1997 should have expired by the end of 2002. As of June 2003, approximately 18 percent of these contracts were still active, accounting for \$605 million in unexpended balances. Most of this amount (\$510 million, or 84 percent) involved the 32 percent of the contracts from 1978 through 1982 that were still active. At current spending rates, it will take another 7 years for these contracts 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. According to USDA, any effort to recapture the remaining unexpended funds associated with rental assistance agreements entered into from 1978 through 1982 would result in a breach of those contracts and would subject USDA to liability.

As of June 2003, 74 percent of the total number of contracts issued in 1998 were still active, even though RHS expected these contracts to run out during 2003, suggesting that these contracts may have been overfunded. About 25 percent, or \$114 million, of the funds remain from the 1998 contracts, and about 35 percent, or \$208 million, remain from the 1999 contracts. Furthermore, only 11 percent of the funds from the contracts issued in 2002 were spent during the contracts' first 1.5 years, suggesting that many of these contracts are expending their funds more slowly than RHS anticipated. Based on current spending rates, and allowing for inflation, the average contract issued during these years will likely run out of funds during its sixth 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. Just as GAO found that contracts issued from 1978 through 1997 have lasted beyond their intended terms, it appears that RHS has overestimated its budget needs over the life of the rental assistance program.

Actual Versus Estimated Rental Assistance Expenditures Per Unit Per Year, from 1990 through 2003



Source: GAO analysis of RHS data.

www.gao.gov/cgi-bin/getrpt?GAO-04-752.

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