

GAO

Fact Sheet for the Chairman,
Committee on Budget, House of
Representatives

August 1990

BUDGET ISSUES

Effects of the Fiscal Year 1990 Sequester at HUD



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Resources, Community, and
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The Honorable Leon E. Panetta
Chairman, Committee on Budget
House of Representatives

Dear Mr. Chairman:

Your January 2, 1990, letter requested that we study the effects of the fiscal year 1990 sequester under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. You specifically asked that we examine the extent to which the sequester has (1) reduced the program resources of selected agencies and (2) affected their abilities to perform their program missions. This fact sheet, which provides that information for the Department of Housing and Urban Development (HUD), is one in a series of case studies responding to your request.

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, establishes deficit targets to lead to a balanced unified budget by 1993. The act requires automatic reductions in budgetary resources (a sequester) if the annual targets cannot be reached through the legislative process. In fiscal year 1990, the targeted deficit level of \$100 billion was not met. Consequently, in December 1989, the President issued a sequester order to reduce fiscal year 1990 outlays by \$5.7 billion. HUD's sequesterable budget authority for fiscal year 1990 totaled \$14.9 billion in appropriations and \$1.2 billion in loan and other spending authority.

In summary, the fiscal year 1990 sequester reduced HUD's budgetary resources by a total of \$175.3 million. HUD officials stated that, in general, the sequester's impact varied by program activity, but they found it difficult to isolate the sequester's impact from the impact of other budget reductions that affected HUD. In the view of HUD's Director, Office of Budget, the agency's Salaries and Expenses account--which lost 259 staff-years--and the Assisted Housing account--which lost 1,141 housing units--were the two areas affected most by the sequester. However, even with the sequester and other budget reductions, HUD's total authorized staff-years and planned subsidized housing units actually increased in fiscal year 1990 from fiscal year 1989 levels.

fiscal year 1990. Overall, the sequester, the funding reduction due to the war on drugs, and higher than anticipated staff-year costs reduced HUD's staff-years for fiscal year 1990 to 12,997. However, this figure was still 24 staff-years more than the agency had in fiscal year 1989.

In Housing--the other area HUD's Budget Director felt was significantly affected--the \$101.6 million sequester reduced the number of subsidized rental housing units planned for fiscal year 1990 by 1,141. This was the only program area where HUD could specifically quantify the sequester's impact. However, even with the sequester, the funding reduction due to the war on drugs, and other budgetary reductions, the number of subsidized rental housing units HUD plans to fund in fiscal year 1990 is about 8,000 more units than were actually funded in fiscal year 1989.

For other program areas, HUD officials were able to provide only general statements regarding the sequester's impact. For example, the \$38.4 million reduction in HUD's Community Development Block Grant program is expected to limit the amount of each grant. However, HUD could not quantify the effects of the sequester on grant recipients because they have wide discretion in determining the actual use of their funds. According to HUD officials, the sequester had little or no impact on other program activities. HUD officials also stated that with the exception of renewals for expiring subsidized rental housing contracts, the sequester affected only activities planned for fiscal year 1990 and, to date, has not reduced ongoing program activities.

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As agreed with your office, we studied the effects of the fiscal year 1990 sequester at five agencies. You specified the Department of Health and Human Services and the Internal Revenue Service, and, with the concurrence of your office, we selected the Department of Education, the Environmental Protection Agency, and HUD. We believe that these agencies provide a cross section of large and small agencies and a broad range of programs that affect the public. HUD was specifically selected because of its grant and loan programs.

To determine the extent to which the sequester reduced HUD's resources, we reviewed HUD's appropriation act for fiscal year 1990 and the act's conference report; the Office of Management and Budget's (OMB) sequester guidance; and OMB's

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Because certain rules apply to sequestration under continuing resolution and because most appropriation acts affecting federal agencies had not been enacted by the October 15, 1989, sequestration deadline, the sequester percentage actually taken varied greatly from 1.4 percent. Such was the case at HUD, whose appropriation act was passed in November 1989. These rules are discussed in greater detail in appendix I.

HUD'S PROGRAM FUNDING FOR FISCAL YEAR 1990

HUD is the federal agency principally responsible for programs concerned with meeting the nation's housing needs, developing and preserving communities throughout the country, and providing equal housing opportunities for all individuals. In carrying out these responsibilities, HUD administers a variety of programs, including the following: Federal Housing Administration (FHA) mortgage insurance programs to help individuals become home owners and to facilitate the construction and rehabilitation of rental housing units; rental assistance programs to help low-income individuals and families who cannot otherwise afford to obtain decent housing; programs to fund efforts to combat discrimination in housing and to further fair housing practices; programs to aid in developing and preserving communities and neighborhoods as viable living and working areas for low- and moderate-income individuals; and programs to research and study ways to improve the efficiency, effectiveness, and equity of HUD programs.

Funding for these programs is provided through various budget accounts, including appropriation accounts, direct- and guaranteed-loan accounts, and other revenue accounts. Our review of HUD's budget accounts in the fiscal year 1991 budget identified 24 separate HUD accounts that contained budgetary resources subject to the sequester. (See table 1.1.)

Accounts with loan and other spending authority

17. Nonprofit Sponsor Assistance Fund	
Direct loan limitation	\$1,000
18. Government National Mortgage Association-- Guarantees of Mortgage-Backed Securities	
Guaranteed loan limitation	[83,000,000] ^b
Other authority	5,616 ^e
19. Rehabilitation Loan Fund	
Direct loans	85,212
Other authority	43,103 ^f
20. Rental Housing Assistance Fund	60,000
21. Interstate Land Sales	600
22. Manufactured Home Inspection and Monitoring Program	7,320
23. Housing for the Elderly and Handicapped	
Direct loan limitation	480,106
24. Federal Housing Administration Fund	
Direct loan limitation	88,600
Guaranteed loan limitation	[75,000,000] ^b
Other authority	<u>403,862^g</u>
Total--Accounts with loan and other spending authority	<u>\$1,175,519</u>

^aIncludes \$50 million in additional appropriations from Public Law 101-164.

^bLimitations on the principal amounts of guaranteed loans are not included in the totals. Though sequesterable resources, they were not sequestered and represent only contingent liabilities of the United States.

^cAn additional amount of \$397,298,000 was to be derived by transfer from the FHA Fund.

^dAn additional amount of \$6,584,000 was to be derived by transfer from the FHA Fund.

^eThe Government National Mortgage Association's Management and Liquidating Functions Fund, a separate budget account, contributed \$100,000 of this amount. The two accounts are consolidated in this table for convenience.

^fAccording to the Chief, Community Development, Research, and Equal Opportunity Branch, Office of Budget, the balance of other budget authority in the account as of May 1990 totaled \$47,688,000.

^gFor transfer to the Salaries and Expenses account and the Office of Inspector General account. The FHA Fund also received a \$350,093,000 appropriation to liquidate losses from previous years. This amount is not included in the totals.

SECTION 2
IMPLEMENTATION OF SEQUESTER AT HUD

The 1.4-percent sequester ordered by the President in December 1989 reduced HUD's budget authority for fiscal year 1990 by \$175.3 million. It was achieved by reducing 12 HUD appropriation accounts by \$173.1 million and 6 other HUD accounts for loan and other spending authority by \$2.2 million. Because HUD's fiscal year 1990 appropriation act was not enacted by October 15, 1989, the sequestration deadline, and because of the method used to calculate the sequester under such conditions, HUD's final budget authority for fiscal year 1990 was reduced by only 1.18 percent.

SEQUESTER OF HUD'S BUDGET ACCOUNTS

Twenty-four of HUD's budget accounts were sequesterable in fiscal year 1990. HUD's initial spending authority for fiscal year 1990 totaled \$14.9 billion in appropriations and \$1.2 billion in loan and other spending authority. Section 517 of HUD's appropriation act for fiscal year 1990 reduced HUD's \$14.9 billion appropriation by \$230.1 million and its \$1.2 billion loan and other spending authority by \$15.1 million to fund the government's war on drugs. The sequester resulted in an additional \$175.3 million reduction. Nearly 99 percent of the sequester--\$173.1 million--involved reductions in HUD's appropriation for fiscal year 1990. The remaining 1 percent--\$2.2 million--represented reductions in HUD's loan and other spending authority. In total, 18 accounts lost funds--12 accounts with appropriations and 6 accounts with loan and other spending authority. (See table 2.1.)

Accounts with loan and other spending authority

17. Nonprofit Sponsor Assistance Fund							
Direct loan limitation	\$1,000	\$17	\$14	1.29	0	\$1,069	
18. Government National Mortgage Association--Guarantees of Mortgage-Backed Securities							
Guaranteed loan limitation	[83,000,000]	[1,286,500]	0	0	0	[81,713,500] ^d	
Other authority ^h	5,616	0	78	1.39	0	5,538	
19. Rehabilitation Loan Fund							
Direct loans	85,212	0	1,193	1.40	0	84,019	
Other authority	43,103	0	178	0.41	0	42,925	
20. Rental Housing Assistance Fund	60,000	0	700	1.17	0	59,300	
21. Interstate Land Sales ^h	600	0	8	1.33	0	592	
22. Manufactured Home Inspection and Monitoring Program ⁱ	7,320	0	12	0.16	0	7,308	
23. Housing for the Elderly and Handicapped							
Direct loan limitation	480,106	7,442	0	0	0	472,664	
24. Federal Housing Administration Fund							
Other authority	403,862	6,260	0	0	-5,552 ^j	392,050	
Direct loan limitation	88,600	1,373	0	0	0	87,227	
Guaranteed loan limitation	[75,000,000]	[1,162,500]	0	0	0	[73,837,500]	
Total--Accounts with loan and other spending authority	<u>\$1,175,519</u>	<u>\$15,092^k</u>	<u>\$2,183</u>	<u>0.19</u>	<u>\$-5,552</u>	<u>\$1,152,692</u>	

^aRate represents sequester amount relative to initial budget authority minus Section 517 reduction and transfers.

^bConsists of rescissions plus \$14 million transfer to Salaries and Expenses account.

^cIncludes a \$50 million additional appropriation for emergency anti-drug funding from Public Law 101-164.

^dLimitations on the principal amounts of guaranteed loans, though sequesterable resources, are not included in the totals for budget authority because a loan guarantee represents only a contingent liability of the United States. Section 517 reductions, associated with loan guarantee authority, have also been deleted from the totals to avoid distortion.

^eHUD has traditionally treated transfers to its Salaries and Expenses and Office of Inspector General accounts as offsetting collections. Although these accounts' full sequester had been taken against the portion of the accounts derived from appropriations, FHA carried out a simulated sequester, reducing the net amounts sent by 1.4 percent. The FHA transfers, related Section 517 reduction, and simulated sequester combined are shown under FHA, other authority.

^fIncludes \$98,000 in sequester associated with combined offsetting collections.

^gCombined offsetting collections of \$5,616,000 from the GNMA account, \$600,000 from the Interstate Land Sales account, and \$881,000 from the Manufactured Home Inspection and Monitoring Program account.

^hThese amounts and related sequesters are included in the transfer to the Salaries and Expenses account.

ⁱThis account sent \$881,000 to the Salaries and Expenses account. This amount consisted of \$869,000 plus a related sequester of \$12,000. An additional \$98,000 sequester was ordered in this account, but apparently was not taken.

^jThese funds were sent to the Salaries and Expenses account and the Office of Inspector General account. (See note d.) The \$5,552,000 represents the simulated sequester carried out by FHA. It is not included in the total for sequestered authority because it was not ordered by the President's report.

^kAn additional Section 517 reduction of \$2,451,232,000 was associated with the guaranteed loan limitation, bringing the total for section 517 reductions to \$2,696,435,000.

- The Salaries and Expenses account funds salaries and costs associated with administering HUD program areas, including Housing, Community Planning and Development, Fair Housing and Equal Opportunity, Departmental Management, Field Legal Services, and Field Direction and Operational Support.
- The Office of Inspector General account funds salaries and costs associated with agency-wide audits and investigative functions to identify and correct management and administrative deficiencies.
- The Annual Contributions for Assisted Housing account provides rental subsidies to housing projects and individuals for the purpose of providing elderly, handicapped, and low-income individuals with decent and sanitary housing.
- The Congregate Services Program account provides grants to public housing agencies and others to provide meals and housekeeping and other services to eligible elderly and handicapped individuals to prevent their placement in institutions.
- The Moderate Rehabilitation--Single Room Occupancy account provides rental subsidies to owners of multi-unit housing structures to defray the cost of moderately rehabilitating single-room units for occupancy by homeless individuals.
- The Assistance for the Renewal of Expiring Section 8 Subsidy Contracts account provides funds to renew expiring Section 8 vouchers and certificates providing rental subsidies to low-income individuals.
- The Payments for Operation of Low-Income Housing Projects account provides operating subsidies to public and Indian housing authorities to assist in operating and maintaining public and Indian housing projects, including activities to control drugs.
- The Community Development Grants account provides grants to cities and urban counties on an entitlement basis and to states for distribution to small communities on a non-entitlement basis to fund local community development programs that promote economic development and provide decent housing and a suitable living environment.
- The Emergency Shelter Grants account provides grants to states, cities, and urban counties for renovating, rehabilitating, or converting buildings for use as emergency shelters for the homeless, and for activities associated with operating shelters and preventing homelessness.

SEQUESTER AMOUNTS VARY BY ACCOUNT

As discussed in greater detail in appendix I, the Balanced Budget Act's provisions for calculating a sequester when an agency's appropriation act has not been enacted can result in a sequester amount being reduced or eliminated completely depending on the actual appropriation or other authority an account receives after the sequester becomes effective. Because of these provisions and because HUD's appropriation act for fiscal year 1990 was not enacted until November 1989--the sequester became effective in October 1989--HUD's overall appropriation sequester rate was 1.18 percent rather than 1.4 percent. The sequester rates for the 12 accounts funded through appropriations were less than 1.4 percent because, even after the Section 517 reduction due to the war on drugs, the actual appropriations for these accounts were greater than the baseline on which the sequesters were calculated. Overall, the rates of reduction for the 12 sequestered accounts varied from a low of 0.05 percent for the account that funds renewals of expiring Section 8 housing subsidy contracts to a high of 1.36 percent for (1) the account that funds salaries, training, rents, and other personal costs and non-personal costs and (2) the account that provides operating subsidies for low-income housing projects. As mentioned earlier in this section, three accounts appropriated funds for fiscal year 1990 were not sequestered at all because their entire sequester amounts were achieved through the appropriations process. Another account was not sequestered because no baseline was available from which to calculate the sequester. The fact that these accounts were not sequestered also contributed to HUD's lower overall sequester rate of 1.18 percent.

After the sequester and the funding reduction for the government's war on drugs, HUD's total obligational authority for the 12 sequestered appropriation accounts was 5.1 percent less in fiscal year 1990 than in fiscal year 1989. However, this reduction occurred primarily because of a \$3.7 billion decline in unobligated balances in HUD's Annual Contributions for Assisted Housing account for fiscal year 1990. Thus, in total, HUD's obligational authority for fiscal year 1990 actually increased for seven accounts and decreased for only two accounts. (The remaining three accounts were new in fiscal year 1990.)

IMPACT OF SEQUESTER ON HUD'S STAFF-YEARS

HUD's Salaries and Expenses account--which funds salaries, training, rents, and other personal and non-personal services for all HUD program and administrative offices except the Office of Inspector General (OIG)--lost 259 staff-years because of the sequester. This account also lost 443 staff-years because of the reduction in funds due to the war on drugs and higher than anticipated staff-year costs in fiscal year 1990. OIG, funded through a separate account, lost a total of 35 staff-years as a result of the sequester, the reduction due to the war on drugs, and the federal pay raise in fiscal year 1990.

Impact of Salaries and Expenses Account on Staff-Years

The sequester reduced HUD's Salaries and Expenses account by a total of \$4.654 million--\$4.556 million from directly appropriated budget authority and \$0.98 million from funds received from GNMA and other sources. Another \$5.461 million was taken from the funds received from FHA, making the total reduction in the Salaries and Expenses account \$10.115 million. HUD distributed this reduction by taking \$7.1 million from personal services (salaries and related expenses) and the remaining \$3 million from non-personal services (e.g., travel, training, contracts, and supplies).

In its fiscal year 1990 appropriation, HUD initially received a total of 13,620 staff-years for all its activities, excluding those under OIG. The \$7.1 million sequester of personal services reduced this figure by a total of 259 staff-years in 12 program areas. The account lost an additional 203 staff-years because of the funding reduction due to the war on drugs and another 240 staff-years because of higher staff-year costs for fiscal year 1990 than HUD had assumed in its budget. (See table 3.1.) A \$14 million transfer from the Annual Contributions for Assisted Housing account restored 98 staff-years in the Housing area.

As shown in table 3.1, other factors also affected the number of staff-years allocated to program activities. HUD--as encouraged in the conference report accompanying its appropriation act for fiscal year 1990--allocated 98 staff-years to its Housing area, leaving the other program areas to absorb their own reductions in staff-years plus the Housing area's portion of the fiscal year 1990 pay raise. HUD also reprogrammed \$3.2 million for 80 staff-years, from the non-personal services portion of the Salaries and Expenses account to the personal services portion of three program areas--Community Planning and Development, Administration and Staff Services, and Field Administration. Overall, the 12,998 total staff-years authorized for fiscal year 1990 after the sequester, the reduction due to the war on drugs, and other adjustments represented an increase of 24 staff-years over HUD's comparable 12,974 actual staff-years for fiscal year 1989.

According to the Director, HUD Office of Budget, the staff-year reductions from the sequester had a significant impact on HUD's Salaries and Expenses account because the account was already underbudgeted for the staff on board, it had to absorb the fiscal year 1990 federal pay raise, and the account funds the agency's rent, a fixed cost over which HUD has little control. As a result, according to this official, HUD has had to continue its hiring freeze and severely curtail equipment and other purchases.

As discussions with specific HUD program officials for the 12 program areas showed, the reduction in staff-years had a significant impact on some program activities, but only a minimal impact or no impact on others. The following summarizes the views of program officials on their ability to fulfill their programs' missions as a result of the staff-year reductions.

Housing: The staff--predominantly located in HUD regional and field offices--supports HUD's single- and multi-family housing programs. The Chief, Personnel Branch, Housing Office of Financial Management, had difficulty isolating the specific impact on Housing activities of the 125 staff-years lost as a result of the sequester. According to this official, regional management will assign staff to the priority activities to ensure that they are fully staffed. However, less pressing activities, such as reviewing public housing authority budgets, may get less attention.

Public and Indian Housing: The staff, among Public and Indian Housing program activities, provides technical assistance, monitors the use of program funds, and oversees maintenance activities. The Director, Budget Division, Public and Indian Housing, could not be specific about the impact of the sequester's staff-year reductions. However, he said that the overall loss of 52 staff-years (from 1,402 to 1,350 staff-years) as a result of the sequester, reductions due to the war on drugs, and the transfer of functional responsibilities--when divided among HUD's 10 regions--would have the same impact as normal staff attrition. That is, slightly less

total reduction of 16 staff-years) had a negligible effect on Departmental Management activities because (1) several special assistant positions were already vacant and that helped to offset the staff-year loss and (2) the expected workload increase from the Fair Housing Act Amendments of 1988 has not yet materialized, thereby reducing the staff-years needed for administrative law judges.

Office of General Counsel: The staff has overall responsibility for providing legal advice, opinions, and services to all HUD programs. According to the Assistant General Counsel for General Law and the Director, Administrative Services Staff, Office of General Counsel, the net reduction of 10 staff-years (from 248 to 238) caused by the sequester and other reductions most severely affected the Office of Equal Opportunity and Administrative Law by contributing to the increase in the backlog of housing discrimination cases being handled by this office.

Field Legal Services: The staff, which includes HUD's regional counsels and other regional and field attorneys, handles all litigations and legal matters in HUD's regional and field offices. The Assistant General Counsel, Field and Management Operations, could not isolate the specific impact of the staff-years lost as a result of the sequester. However, according to this official, the Field Legal Services area was already understaffed, and the total reduction of 22 staff-years (from 299 to 277) as a result of the sequester and other reductions will worsen this situation when the increased workload from the Fair Housing Act Amendments of 1988 begins to materialize. She said that the staff-year reductions will force Field Legal Services' staff to concentrate on high-priority work, such as litigations, and complete as time permits lower-priority work, such as affirmative action cases.

Administration and Staff Services, and Field Administration: The staff in these two areas perform all of HUD's administrative functions--accounting, personnel, procurement, and budget. According to the Director, Administrative Expenses Division, Office of Budget, there was a great deal of concern that the 153 staff-years lost as a result of the sequester, the reduction due to the war on drugs, higher than planned staff-year costs in fiscal year 1990, and the transfer of staff-years (but exclusive of other adjustments) would severely disrupt the timeliness and quality of HUD's accounting activities. Consequently, 63 of the 80 staff-years gained from the reprogramming of funds within the Salaries and Expenses account were allocated to accounting activities in these two areas--38 to Field Administration and 25 to Administration and Staff Services.

Field Direction and Operational Support: The staff manages and directs regional and field office programs and provides technical support in economic market analysis and labor relations.

Community Planning and Development, Policy Development and Research, Fair Housing and Equal Opportunity, and Policy Development and Research. The following summarizes the views of program officials regarding the sequester's impact on these programs' operations planned for fiscal year 1990.

Housing

Four of the sequestered accounts--Annual Contributions for Assisted Housing, Congregate Services Program, Assistance for Expiring Section 8 Subsidy Contracts, and Payments for Operation of Low-Income Housing Projects--provide funds for Housing program activities.

HUD's Annual Contributions for Assisted Housing account received an \$8.1 billion appropriation, which included funding for 91,117 new and replacement housing units for elderly, handicapped, and low-income individuals. Funding the war on drugs reduced the appropriation by \$125.8 million; the sequester reduced the appropriation by another \$101.6 million. According to HUD's Office of Budget, the sequester affected 1,141 housing units as follows:

- 104 fewer units will be constructed for public and Indian housing;
- 107 fewer units will be constructed for elderly and handicapped housing;
- 344 fewer rental subsidy vouchers will be issued to low-income tenants;
- 466 fewer rental subsidy certificates will be issued for low-income families;
- 75 fewer units will be assisted in HUD- or FHA-insured housing projects experiencing financial difficulties;
- 40 fewer units will be provided rental assistance in properties foreclosed by HUD that are sold to private individuals and repaired for use as low-income housing; and
- 5 fewer rental housing units will be converted from HUD's terminated Section 23 assistance program to its current Section 8 rental assistance program.

According to an official in HUD's Office of Budget and another official from the Housing's Budget Division, the reductions in fiscal year 1990 will not have an immediate impact because the funds are only reserved or set-aside in fiscal year 1990. Nevertheless, the sequester will have an impact in the future, when these funds will not be available for 1,141 housing units and

janitorial services, building maintenance, and possibly funding for utilities provided by the housing projects.

Community Planning and Development

Three of the sequestered accounts--Community Development Grants, Emergency Shelter Grants, and the Transitional and Supportive Housing Demonstration Program--provide funds for community development and activities for the homeless.

Funding the war on drugs reduced the nearly \$3 billion appropriation for Community Development Grants by \$46.5 million. The sequester cut an additional \$38.4 million. According to the Director, Budget Division, Community Planning and Development, while the sequester reduced the overall amount of funds that can be awarded through Community Development Block Grants in fiscal year 1990, other factors also affected the size of these grants. These factors included increases in the number of cities and counties eligible for block grants in fiscal year 1990 and changes in an eligible city's or county's overall ranking in relation to other eligible recipients. While the sequester represented a 1.30-percent reduction in funds for Community Development Block Grants, he said that individual recipient awards may decline 10 percent from last year because of these other factors. According to the Director, Program Budget Development Division, and other officials from HUD's Office of Budget, grant recipients have wide discretion in determining the actual use of their funds for community and economic development activities, which further adds to the difficulty in quantifying the effects of the sequester.

Funding the war on drugs reduced the \$75 million appropriation for Emergency Shelter Grants by \$1.2 million. The sequester cut an additional \$674,000 from the appropriation. According to the Director, Budget Division, Community Planning and Development, HUD anticipates no reductions in the number of emergency shelter grants awarded due to the sequester and other reductions, but each applicant will receive slightly less funding.

Funding the war on drugs reduced the \$130 million appropriation for the Transitional and Supportive Housing Demonstration Program by \$2.0 million; the sequester reduced it an additional \$1.2 million. According to the Director, Operation Section, Office of Special Needs Assessment, the sequester was not applied against the program's Permanent Housing component--which provides long-term housing for the disabled homeless--because of a statutory requirement that this component be funded at a minimum of \$15 million each year. The Transitional Housing component--which funds innovative housing approaches to move homeless people into independent housing--bore the entire sequester; consequently, according to this official, fewer grants were made in fiscal year 1990.

will have virtually no effect on assistance to financially troubled FHA housing projects because HUD expects to collect over \$60 million in excess rents. Moreover, according to this official, the account to which these rents are eventually transferred before they are used to assist the troubled projects has a very large balance--\$100 million--because the funds are not being used to the degree that HUD had anticipated.

Also according to this official, the \$14,000 sequester of the Nonprofit Sponsor Assistance Fund has not affected HUD's ability to make loans for planning housing projects for elderly and handicapped individuals. No groups have been unable to get these loans because of insufficient funds, he said.

COMPARISON OF HUD'S OBLIGATIONAL AUTHORITY FOR THREE FISCAL YEARS

HUD's total obligational authority for the 12 sequestered appropriation accounts declined overall by about \$2.5 billion between fiscal years 1989 and 1990. However, the sequester and the funding reduction due to the war on drugs represented only a small portion of the overall 5.1-percent reduction in the accounts' total obligational authority for fiscal year 1990. The principal cause for the decline was a reduction in the obligational authority of HUD's Annual Contributions for Assisted Housing account, caused by a decrease in unobligated balances. Overall, HUD's total obligational authority increased for 7 of the 12 accounts and decreased for only 2 of the accounts between fiscal years 1989 and 1990. (See table 3.2.) The three remaining accounts were new accounts in fiscal year 1990.

SEQUESTRATION UNDER CONTINUING RESOLUTION

Certain rules apply when appropriations have not been enacted by October 15, the sequestration deadline. The law requires that an assumed appropriation level, called the baseline, be used for making the sequester computation. That level, in most cases, is the total appropriation of the previous year adjusted upward for pay raises and price inflation estimates, as specified in the act. If the final appropriation enacted is less than the baseline, the decrease is counted toward, or "credited to," the sequestration requirement. Depending upon the degree of the decrease, the sequestered amount and percentage may be reduced or totally eliminated. If the final appropriation is larger than the assumed level, the increase is protected from sequestration. In this case, the sequestered amount does not change, but the effective sequester percentage goes down.

In fiscal year 1990, most federal agencies had not received their appropriations and were operating under continuing resolution on October 15, 1989. Consequently, they were subject to the crediting rules described above when their appropriations were enacted. The three examples shown in table I.1 illustrate how increases in actual appropriations are protected from sequestration and decreases are credited to the sequestration requirement. The examples use the 1.4-percent sequester rate ordered for nondefense programs in fiscal year 1990 and a \$100,000 assumed appropriation. Example A shows the effect on the sequester amount and rate when the actual appropriation is greater than the assumed level. Example B shows the effect when the actual appropriation is less than the assumed appropriation level but greater than the assumed appropriation level minus the sequester amount. Example C shows the effect when the actual appropriation is less than the assumed appropriation level minus the sequester amount.

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Table I.1: Illustration of Calculation of Sequester Amounts Under Continuing Resolution

<u>Category</u>	<u>Calculation of sequester amount</u>		
	<u>Example A</u>	<u>Example B</u>	<u>Example C</u>
Assumed appropriation (baseline)	\$100,000	\$100,000	\$100,000
Sequester amount (projected)	1,400	1,400	1,400
Post-sequester base	98,600	98,600	98,600
- - - - -	- - - - -	- - - - -	- - - - -
Actual appropriation	110,000	99,000	98,000
Actual sequester amount	1,400	400	0
Sequester rate (actual)	1.3	0.4	0
Net appropriation	\$108,600	\$98,600	\$98,000

Table 3.2: HUD's Total Obligational Authority for 12 Sequestered Appropriation Accounts, Fiscal Years 1988, 1989, and 1990

Dollars in Thousands

<u>Account</u>	<u>Total obligational authority</u>			<u>Percent change</u>	
	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>1988-89</u>	<u>1989-90</u>
Annual Contributions for Assisted Housing ^a	\$44,130,501	\$42,568,197	\$39,884,657	-3.5	-6.3
Congregate Services Program	7,422	8,796	6,435	18.5	-26.8
Moderate Rehabilitation--Single Room Occupancy	0	0	[73,185] ^b	0	0
Assistance for the Renewal of Expiring Section 8 Subsidy Contracts	0	0	[1,074,492] ^b	0	0
Payments for Operation of Low-Income Housing Projects	1,515,000	1,705,508	1,815,239	12.6	6.4
Community Development Grants	3,109,155	3,173,920	3,206,939	2.1	1.0
Emergency Shelter Grants	58,002	46,802	73,698	-19.3	57.5
Transitional and Supportive Housing Demonstration Program	144,366	117,898	129,997	-18.3	10.3
Research and Technology	18,918	18,162	21,153	-4.0	16.5
Fair Housing Activities	7,036	10,941	18,674	55.5	70.7
Salaries and Expenses	671,300	727,056	769,765 ^c	8.3	5.9
Office of Inspector General	<u>0</u>	<u>0</u>	<u>[30,695]^c</u>	<u>0</u>	<u>0</u>
Total	<u>\$49,653,185</u>	<u>\$48,372,325</u>	<u>\$45,900,557</u>	<u>2.6</u>	<u>-5.1</u>

Note: Figures in brackets are not included in totals.

^aFigures do not include amounts for debt forgiveness.

^bThe Moderate Rehabilitation--Single Room Occupancy account and the Assistance for the Renewal of Expiring Section 8 Subsidy Contracts account were separated from the Annual Contributions for Assisted Housing account in fiscal year 1990. We have included these two accounts' funding for fiscal year 1990 in the Annual Contributions for Assisted Housing account to enable comparison with previous years' authority.

^cThe Office of Inspector General account was separated from the Salaries and Expenses account in fiscal year 1990. We have included the account's funding for fiscal year 1990 in the Salaries and Expenses account to enable comparison with previous years' authority.

Fair Housing and Equal Opportunity

Funding the war on drugs reduced the \$12.8 million appropriation for the Fair Housing Activities account by \$198,000; the sequester reduced it an additional \$145,000. According to the Acting Director, Management Systems and Services Division, Fair Housing and Equal Opportunity, the reduction will have little impact on the grants to states and others for addressing discrimination in housing for two reasons. First, the sequester amount is small--1.15 percent. Second, the program area's funding is multi-year, and in fiscal year 1990 approximately \$6.2 million in unobligated funds was carried over from fiscal year 1989, which more than offset the sequester.

Policy Development and Research

HUD's \$21 million appropriation for the Research and Technology account was reduced by \$325,000 because of the war on drugs and by \$249,000 because of the sequester. According to the Director, Division of Budget, Contracts, and Program Control, Policy Development and Research, none of the research contracts and studies HUD planned for fiscal year 1990 would be eliminated, but the scope of some contracts might be slightly altered, though not enough to materially affect the work.

IMPACT OF SEQUESTER ON ACTIVITIES UNDER HUD'S DIRECT LOAN AND OTHER ACCOUNTS

Three of the sequestered accounts--the Rehabilitation Loan Fund, the Rental Housing Assistance Fund, and the Nonprofit Sponsor Assistance Fund--provide HUD with funds to (1) make and service direct loans to rehabilitate residential and commercial properties, (2) provide money to plan housing projects for the elderly and the handicapped, and (3) to assist financially troubled FHA housing projects.

According to the Chief, Community Development, Research, and Equal Opportunity Branch, Office of Budget, the \$1,371,000 sequester of the Rehabilitation Loan Fund had a very limited impact on HUD's ability to provide and service direct loans to rehabilitate residential and commercial properties. The portion of the sequester applicable to the direct loans--\$1,193,000--is very small in terms of the \$85.2 million in direct loan authority available to HUD, this official said. Furthermore, as of May 1990, the fund's estimated program resources totaled \$132.9 million, leaving \$47.7 million in the fund to service direct loans. As a result, the sequestered amount, \$178,000, will have virtually no impact on loan servicing.

According to a Budget Analyst in the Program Budget Development Division, Office of Budget, the \$700,000 sequester of excess housing rents in the Rental Housing Assistance Fund account

rental subsidies. With the sequester, the reduction due to the war on drugs, and other adjustments (e.g., the transfer and reprogramming of funds) made to the Annual Contributions for Assisted Housing account, the account's budget authority totaled about \$8.75 billion for fiscal year 1990, compared with about \$6.96 billion for fiscal year 1989. HUD estimates that with the funding in fiscal year 1990, it will be able to fund 98,116 new and replacement housing units, compared with 90,127 units actually funded in fiscal year 1989.

Funding the war on drugs reduced the \$6 million appropriation for HUD's Congregate Services Program by \$93,000. The sequester cut an additional \$78,000. According to the Chief, Program Branch, Housing Budget Division, if, as a result of the sequester and the reduction due to the war on drugs, sufficient funding is not available to renew all the expiring contracts, HUD may reduce the length of some contract renewals and may not renew others at all. It should be noted that HUD has not requested any funds for the Congregate Services Program for fiscal year 1991, but HUD does plan to fund alternative demonstration projects through its Homeownership and Opportunity for People Everywhere program.

Funding the war on drugs reduced the \$1.1 billion appropriation for HUD's Assistance for the Renewal of Expiring Section 8 Subsidy Contracts account by \$16.9 million. The sequester cut the appropriations another \$561,000--a reduction of about 0.05 percent. According to the Chief, Program Branch, Housing Budget Division, HUD has not completed work to determine how many contracts will expire by October 1991 and, consequently, is not certain how much funding will be required to renew these contracts. However, according to the Director, Program Budget Development Division, and other officials from HUD's Office of Budget, it is HUD's policy that no Section 8 subsidy contracts will be allowed to expire because individuals that currently have subsidized housing would lose their subsidies. As a result, HUD will renew all expiring contracts and, if funding in this account is not sufficient, will transfer funds to this account from other sources. If such actions are taken, these other programs will be affected by the sequester.

HUD's \$1.8 billion appropriation for the Payments for Operation of Low-Income Housing Projects account was reduced by \$27.8 million to fund the war on drugs. The sequester cut the appropriation an additional \$24.8 million. The effects of both of these reductions were, for the most part, offset by a \$50 million additional appropriation under Public Law 101-164 for emergency anti-drug funding. According to the Director, Budget Division, Public and Indian Housing, the effects of the sequester and the reduction due to the war on drugs were unclear because HUD had not yet received all the requests for operating subsidy assistance. Any cut in the operating subsidies for housing projects, this official said, will reduce services for the tenants, such as

The Assistant Deputy Under Secretary for Field Coordination was not able to specifically identify the impact of the sequester's staff-year reductions on HUD's Field Direction and Operational Support activities. However, he stated that this area is already understaffed and that the total reduction of 39 staff-years (from 533 to 494) from the sequester and other reductions will reduce the number of economists and labor relations specialists in the regional and field offices. He said that these reductions, in turn, will mean that HUD will not always have an economic market analysis of the housing needs for a particular area when considering housing project funding or be able to provide all the assistance that housing project authorities may need in terms of wage rates and other labor relations.

Impact of OIG Account Sequester on Staff-Years

Fiscal year 1990 marked the first time that OIG's salaries and other personal and non-personal expenses were funded separately from HUD's Salaries and Expenses account. OIG supervises and coordinates audits and investigations of HUD programs to promote economy and efficiency and prevent fraud, waste, and mismanagement.

For fiscal year 1990, the OIG account received 525 staff-years--35 more staff-years than requested in the President's budget to the Congress. According to the Deputy Inspector General, however, absorbing the sequester, the reduction due to the war on drugs, and the pay raise in fiscal year 1990 wiped out this increase and left OIG with virtually the same staffing level it had in fiscal year 1989. He told us that OIG's Office of Audits bore the brunt of the staff-year reductions. Because of these reductions and a mandate from the Congress and the HUD Secretary that OIG emphasize certain audits, such as of HUD's mortgage program, OIG deferred other audits planned for fiscal year 1990 until fiscal year 1991. The Deputy Inspector General also told us that the staff-year reductions prevented OIG from providing all the assistance the Department of Justice requested for work involving HUD's housing programs.

According to the Deputy Inspector General, in addition to reducing staff-years, the sequester and other funding reductions forced OIG to cancel three training courses because travel funds were not available. Furthermore, OIG had underbudgeted for its automated data processing services for fiscal year 1990 by about \$300,000; consequently, the sequester--although it was only \$18,000--exacerbated this situation.

IMPACT OF SEQUESTER ON HUD'S PROGRAM OPERATIONS

The 10 remaining sequestered appropriation accounts at HUD funded activities in the following program areas: Housing,

time would be spent on providing various technical and management assistance to Public and Indian Housing Authorities.

GNMA: The staff reviews applications for the guarantee of mortgage-backed securities, oversees the portfolio of securities acquired through defaults by issuers, and monitors active issuers of securities, among other activities. The sequester reduced GNMA's total staff-years by 1, from 61 to 60 staff-years. GNMA experienced no other staff-year reductions. According to GNMA's Assistant Controller, GNMA is understaffed; consequently, even the loss of 1 staff-year has hurt its ability to develop a system to monitor private institutions issuing securities.

Community Planning and Development: The staff awards and oversees grants provided for community and economic development. According to the Director, Budget Division, Community Planning and Development, HUD's monitoring of the Community Development Block Grants is very important to ensure that these grants are properly spent and yet is the area most affected by the sequester. He said that the Community Planning and Development area is already understaffed and that the 23 staff-years lost as a result of the sequester will further reduce the average time HUD spends monitoring the activities of each grantee.

Policy Development and Research: The staff performs in-house studies and manages contracted work designed to improve the efficiency, effectiveness, and equity of HUD programs. According to the Director, Division of Budget, Contracts, and Program Control, Policy Development and Research, the net loss of 8 staff-years (from 145 to 137 staff-years) caused by the sequester and other staff-year reductions has had no noticeable impact on Policy Development and Research activities. Despite the overall staff-year reductions, Policy Development and Research received virtually the same number of staff-years in fiscal year 1990 as it did in fiscal year 1989.

Fair Housing and Equal Opportunity: The staff investigates housing discrimination complaints. According to the Acting Director, Management System and Services Division, Fair Housing and Equal Opportunity, the 15 staff-years lost as a result of the sequester (of a total reduction of 55 staff-years) would have little impact on this area because of the substantial increase in resources it received in fiscal year 1989 to handle the increased housing discrimination workload generated by the Fair Housing Act Amendments of 1988.

Departmental Management: The staff supports the Secretary of HUD in carrying out his responsibilities to the President and the Congress in areas including intergovernmental relations, minority and small business contracting, and administrative judicial appeals. According to the Administrative Officer, Office of the Secretary, the 3 staff-years lost because of the sequester (of a

Table 3.1: Effects of Section 517 Reduction, the Sequester, and Other Adjustments on HUD's Staff-Years for Fiscal Year 1990

Program area	Number of staff-years							Total
	Authorized	Section 517 reduction	Sequester	Repricing changes ^a	Pay raise FY 1990	Transfer and reprogramming ^b	Other adjustments ^c	
Housing	6,540	-100	-125	-131	0	98 ^e	295	6,576
Public and Indian Housing	1,402	-21	-28	0	0	0	-3	1,350
Government National Mortgage Association	61	0	-1	0	0	0	0	60
Community Planning and Development	1,116	-17	-23	-24	-21	16	58	1,106
Policy Development and Research	145	-2	-3	-3	-3	0	3	137
Fair Housing and Equal Opportunity	751	-12	-15	-15	-14	0	-1	696
Departmental Management	147	-2	-3	-3	-3	0	-5	131
Office of General Counsel	248	-4	-5	-5	-5	0	9	238
Field Legal Services	299	-5	-6	-6	-5	0	0	277
Administrative and Staff Services	1,182	-18	-23	-24	-21	25	-356	765
Field Direction and Operational Support	533	-8	-10	-11	-10	0	0	494
Field Administration	<u>913</u>	<u>-14</u>	<u>-18</u>	<u>-18</u>	<u>-17</u>	<u>38</u>	<u>0</u>	<u>884</u>
Subtotal--Salaries and Expenses	13,336	-203	-259	-240	-98	178	0	12,714
Working Capital Fund ^f	284	0	0	0	0	0	0	28
Total ^d	<u>13,620</u>	<u>-203</u>	<u>-259</u>	<u>-240</u>	<u>-98</u>	<u>178</u>	<u>0</u>	<u>12,997</u>

^aStaff-year reductions due to higher staff-year costs than HUD had anticipated in its budget for fiscal year 1990.

^bStaff-year change due to the reprogramming of \$3.2 million from non-personal services to personal services.

^cNet staff-year changes resulting from the realignment of functions within HUD--transfer of activities concerning the homeless, international affairs, drug policy, and mortgage insurance and accounting.

^dColumns and rows may not add to subtotals or totals because of rounding.

^eStaff-years restored to Housing by a \$14 million transfer from the Annual Contributions for Assisted Housing account.

^fStaff salaries funded under the Working Capital Fund.

SECTION 3
THE SEQUESTER'S IMPACT ON HUD'S
STAFF-YEARS AND PROGRAM OPERATIONS

HUD officials found it difficult to isolate the sequester's impact because the Congress reduced HUD's appropriations for fiscal year 1990 by \$230.1 million--\$57.0 million more than the amount sequestered--to fund the war on drugs.¹ According to HUD officials, with the exception of funding for the renewal of expiring subsidized rental housing contracts, the sequester to date has affected only activities planned for fiscal year 1990. In addition, the sequester's full impact on some program activities will not be known until the end of the fiscal year, when all funding decisions will be completed.

Although HUD officials could not be specific, they characterized the impact of the sequester in general terms. According to these officials, the impacts varied by program: some programs were significantly affected because the loss of funds reduced staff-years authorized for fiscal year 1990 and limited planned program operations; others were affected only minimally or not at all. In HUD's view, the agency's Salaries and Expenses account, which was already underbudgeted and had to absorb the federal pay raise for fiscal year 1990, was one area seriously affected: it lost 259 staff-years, which resulted in HUD continuing its hiring freeze and curtailing its spending for equipment, furniture, and other non-personal items. According to HUD officials, other impacts from the staff-year reductions included (1) less time spent monitoring recipients of HUD's community development grants, (2) a greater backlog of housing discrimination cases in the Office of General Counsel, and (3) cutbacks in Field Legal Services' investigations of affirmative action complaints. The sequester also directly affected some program operations. In Housing--the other area HUD's Budget Director felt was significantly affected--the sequester reduced by 1,141 the number of rental housing units HUD had planned to fund in fiscal year 1990 for elderly, handicapped, and low-income individuals. For other programs, such as HUD's community development grants, the impact of reduced funding could only be described by general statements, such as smaller-sized grants to recipients. Still, for other programs, such as loans to rehabilitate residential and commercial properties, officials indicated that the sequester had little or no impact because the reductions were small or the carryover of funds from the previous fiscal year was large.

¹The net reduction due to the war on drugs was only \$180.1 million. This occurred because Public Law 101-164 appropriated \$50 million in additional funds to the Payments for Operation of Low-Income Housing Projects account to carry out anti-drug efforts.

- The Transitional and Supportive Housing Demonstration Program account assists states, cities, and urban areas in developing (1) innovative approaches for providing housing and support services to move homeless people into independent housing and (2) permanent, long-term housing with support services for the disabled homeless.
- The Research and Technology account funds contracts and grants for research programs to improve the efficiency, effectiveness, and equity of HUD programs and to identify methods to achieve cost reductions.
- The Fair Housing Activities account provides funds to states and public and private agencies to prevent and eliminate discrimination in housing.
- The Rehabilitation Loan Fund account provides funds to communities for direct loans to individuals for rehabilitating commercial and residential properties.
- The Nonprofit Sponsor Assistance Fund account provides interest-free loans to nonprofit groups to plan housing projects for the elderly and the handicapped.
- The Rental Housing Assistance Fund account, a revolving fund into which rental collections that exceed the basic rates for units in Section 236 subsidized housing projects are deposited, provides funds to another account (the Flexible Subsidy account), which is used to assist financially troubled FHA housing projects.
- The Government National Mortgage Association--Guarantee of Mortgage-Backed Securities account guarantees securities issued by private financial institutions and backed by mortgages of FHA, the Department of Veterans Affairs, and the Farmers Home Administration.
- The Interstate Land Sales account provides funds, collected through fees charged land developers, for administering federal requirements regarding the sale of lands in any subdivision of 100 or more lots.
- The Manufactured Home Inspection and Monitoring Program account provides funds, collected through fees charged manufactured home producers, to cover the cost of inspecting manufactured homes to ensure their compliance with federal construction, design, and performance standards.

As shown in table 2.1, funding adjustments other than the sequester and funding reductions due to the war on drugs were made in two of the sequestered accounts. The Annual Contributions for Assisted Housing account was reduced an additional \$564 million, \$14 million of which was transferred to HUD's Salaries and Expenses account to support additional staffing in the Housing area and to partially offset the federal pay raise. The remainder of the reduction resulted from the rescission of budget and contract authority.

Sequester of Appropriation Accounts

Sixteen of HUD's appropriation accounts were subject to the sequester. Of the 16 accounts, 12 were sequestered. Three accounts--Housing Counseling Assistance, Urban Homesteading, and Rental Rehabilitation Grants--were not sequestered because the entire reductions under the sequester were achieved through the appropriations process. The remaining account--Supplemental Assistance for Facilities to Assist the Homeless--was not sequestered because, according to a Senior Budget Analyst in HUD's Office of Budget, that account did not exist as an appropriation account in fiscal year 1989 and, thus, no base existed from which to calculate a sequester. In addition to having appropriations, the Community Development Grants account also had guaranteed loan authority for fiscal year 1990 that was not sequestered because the reduction in authority that would have been attained through sequestration was achieved through the legislative process.

Sequester of Loan and Other Spending Authority

In addition to reducing the 12 appropriation accounts, the sequester also reduced the loan and other spending authority for 6 other HUD accounts. For one of these accounts--Government National Mortgage Association-Guarantees of Mortgage-Backed Securities--HUD's budget authority for staffing and other administrative costs was sequestered, but the account's authority to guarantee mortgage loans was not sequestered because the reduction that would have been attained through sequestration was achieved through the legislative process. Overall, the sequester reduced HUD's loan and other spending authority by 0.19 percent.

Activities Funded by Sequestered Accounts

The 18 sequestered accounts funded a variety of activities in HUD's administrative and management areas and in the following program areas: Housing, Community Planning and Development, Public and Indian Housing, Fair Housing and Equal Opportunity, and Research and Technology. Descriptions of the 18 accounts follow.

Table 2.1: HUD Accounts Subject to Section 517 Reduction, the Sequester, and Other Adjustments in Fiscal Year 1990

Dollars in Thousands

<u>Program</u>	<u>Initial budget authority</u>	<u>Section 517 reduction</u>	<u>Sequester</u>		<u>Other adjustments</u>	<u>Final budget authority</u>
			<u>Amount</u>	<u>Rate^a</u>		
<u>Accounts with appropriations</u>						
<u>Housing</u>						
1. Housing Counseling Assistance	\$ 3,500	\$ 54	\$ 0	0	\$ 0	\$ 3,446
2. Annual Contributions for Assisted Housing	8,115,222	125,787	101,580	1.27	-564,229 ^b	7,323,626
3. Congregate Services Program	6,000	93	78	1.32	0	5,829
4. Assistance for the Renewal of Expiring Section 8 Subsidy Contracts	1,091,978	16,925	561	0.05	0	1,074,492
<u>Public and Indian Housing</u>						
5. Payments for Operation of Low-Income Housing Projects	1,845,600 ^c	27,832	24,737	1.36	0	1,793,031
<u>Community Planning and Development</u>						
6. Community Development Grants	3,000,000	46,500	38,436	1.30	0	2,915,064
Guaranteed loan limitation	[144,000]	[2,232]	0	0	0	[141,768] ^d
7. Urban Homesteading	13,200	205	0	0	0	12,995
8. Emergency Shelter Grants	75,000	1,162	674	0.91	0	73,164
9. Moderate Rehabilitation--Single Room Occupancy	75,000	1,162	653	0.88	0	73,185
10. Rental Rehabilitation Grants	130,000	2,015	0	0	0	127,985
11. Transitional and Supportive Housing Demonstration Program	130,000	2,015	1,160	0.91	0	126,825
12. Supplemental Assistance for Facilities to Assist the Homeless	11,000	170	0	0	0	10,830
<u>Policy Development and Research</u>						
13. Research and Technology	21,000	325	249	1.20	0	20,426
<u>Fair Housing and Equal Opportunity</u>						
14. Fair Housing Activities	12,753	198	145	1.15	0	12,410
<u>Management and Administration</u>						
15. Salaries and Expenses						
Appropriation	341,252	5,289	4,556	1.36	14,000	345,407
Transfer ^e	[397,278]	[6,158]	[5,559] ^f		[7,097] ^g	[392,658]
16. Office of Inspector General						
Appropriation	24,481	379	307	1.27	0	23,795
Transfer ^e	[6,584]	[102]	[91]		0	[6,391]
Total--Accounts with appropriations	\$14,895,986	\$230,111	\$173,136	1.18	\$-550,229	\$13,942,510

We should point out, however, that in addition to the sequesterable budget authority shown in table 1.1, 16 of these accounts had unobligated balances brought forward from previous years and/or offsetting collections. These funds were available for obligation in fiscal year 1990, but were not sequesterable. HUD also had 11 additional active budget accounts with no sequesterable resources. One account contains a permanent, indefinite appropriation, while another has borrowing authority. Six of the accounts operate almost exclusively on offsetting collections. Of the three remaining accounts, two showed no activity in fiscal year 1990 and one account, the Nehemiah Housing Opportunity Grants, is included in the total for the Annual Contributions for Assisted Housing account listed in table 1.1. Further resources held by FHA and the Government National Mortgage Association (GNMA) in the form of United States securities are not included in table 1.1. If all these additional funds had been considered, the overall rate of sequester reduction would have been much less.

Section 2 and 3 of this fact sheet discuss the extent to which the sequester reduced HUD's appropriations and other spending authority for fiscal year 1990 and the impact of these reductions on HUD's programs.

Table 1.1: HUD Budget Accounts Subject to the Sequester and Their Appropriations or Other Budget Authority for Fiscal Year 1990, Before Section 517 Reduction and the Sequester

<u>Accounts with appropriations</u>	<u>Initial budget authority (dollars in thousands)</u>
<u>Housing</u>	
1. Housing Counseling Assistance	\$ 3,500
2. Annual Contributions for Assisted Housing	8,115,222
3. Congregate Services Program	6,000
4. Assistance for the Renewal of Expiring Section 8 Subsidy Contracts	1,091,978
<u>Public and Indian Housing</u>	
5. Payments for Operation of Low-Income Housing Projects	1,845,600 ^a
<u>Community Planning and Development</u>	
6. Community Development Grants	3,000,000
Guaranteed loan limitation	[144,000] ^b
7. Urban Homesteading	13,200
8. Emergency Shelter Grants	75,000
9. Moderate Rehabilitation--Single Room Occupancy	75,000
10. Rental Rehabilitation Grants	130,000
11. Transitional and Supportive Housing Demonstration Program	130,000
12. Supplemental Assistance for Facilities to Assist the Homeless	11,000
<u>Policy Development and Research</u>	
13. Research and Technology	21,000
<u>Fair Housing and Equal Opportunity</u>	
14. Fair Housing Activities	12,753
<u>Management and Administration</u>	
15. Salaries and Expenses	341,252 ^c
16. Office of Inspector General	<u>24,481^d</u>
<u>Total--Accounts with appropriations</u>	<u>\$14,895,986</u>

SECTION 1
BACKGROUND INFORMATION ON
BUDGET SEQUESTER AND HUD

In late 1989, the Department of Housing and Urban Development (HUD) and other federal agencies were subjected to a budget sequester under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. As required by the act, across-the-board reductions were ordered in agencies' budgetary resources for fiscal year 1990 to reduce the overall federal budget deficit by \$5.7 billion. Twenty-four of HUD's budget accounts contained sequesterable budgetary resources in fiscal year 1990. HUD's sequesterable budget authority for fiscal year 1990 totaled \$14.9 billion in appropriations and \$1.2 billion in loan and other spending authority.

THE BUDGET SEQUESTER PROCESS

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, establishes deficit targets to lead to a balanced budget by fiscal year 1993. Each year, the Office of Management and Budget (OMB) is required to submit an initial report on August 25 and a final report on October 15 projecting the fiscal year deficit. If OMB projects a deficit in excess of the target amount plus \$10 billion, the President must issue a sequester order to reduce budgetary resources sufficiently to reach the target deficit level. The dollar amount to be sequestered must be divided evenly between defense and nondefense accounts. Before fiscal year 1990, sequestration had been implemented only once, in fiscal year 1986, when defense and nondefense budgets were reduced by 4.9 percent and 4.3 percent, respectively.

The act set the deficit target for fiscal year 1990 at \$100 billion. OMB's August 1989 report estimated a \$116.2 billion deficit, exceeding the target by \$16.2 billion; OMB's October 1989 report slightly reduced the overall estimate, to \$116.1 billion. Both reports would have required a sequester of 4.3 percent in defense accounts and 5.3 percent in all other accounts subject to sequestration. Sequestration of this magnitude, however, was never fully implemented because the Congress passed the Omnibus Budget Reconciliation Act of 1989.

The 1989 Reconciliation Act, approved on December 19, 1989, reduced the mandatory sequester amount to 130/365 of the original \$16.1 billion requirement. This change effectively reduced the sequester requirement to \$5.7 billion, or 1.5 percent in defense accounts and 1.4 percent in nondefense programs. OMB responded to this legislation with its "Revised Final Sequester Report," published on December 27, 1989, and backdated to October 15, which sequestered the lower amount.

I.1	Illustration of Calculation of Sequester Amounts Under Continuing Resolution	34
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ABBREVIATIONS

FHA	Federal Housing Administration
FY	fiscal year
GNMA	Government National Mortgage Association
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget

reports and the President's sequester orders for fiscal year 1990. We also reviewed HUD's portion of the fiscal year 1991 budget submitted to the Congress to identify the specific budget accounts affected by the sequester. We discussed the sequester's implementation with the Director and other officials of HUD's Office of Budget and obtained data from HUD showing how the sequester was allocated across each account's program activities.

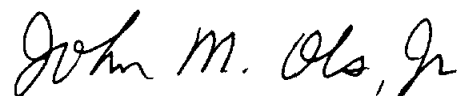
To identify the sequester's impact on HUD's program operations, we discussed the sequester with the Director, Office of Budget, and 19 other HUD budget and program officials. As agreed with your office, we did not verify or validate the statements HUD officials made regarding the impacts of the sequester. We also reviewed HUD's Operating Plan for fiscal year 1990 and its budget justification for fiscal year 1991 to supplement these interviews. To determine changes in HUD's funding levels, we compared HUD's total obligational authority for the sequestered appropriation accounts in fiscal year 1990 with their levels in fiscal years 1988 and 1989.

We performed our work from March through June 1990. We discussed the contents of this fact sheet with HUD officials, who generally agreed with its content. Their comments have been incorporated where appropriate.

As agreed with your office, unless you publicly release the contents of this report earlier, we will not distribute the report until 30 days from the date of this letter. At that time, we will send copies of this fact sheet to the Secretary, HUD; the Director, OMB; the Director, Congressional Budget Office; and other interested parties. We will also make copies available to others on request.

If you have any questions about this fact sheet, please contact me on (202) 275-5525. Major contributors to this fact sheet are listed in appendix II of this report.

Sincerely yours,



John M. Ols, Jr.
Director, Housing and Community
Development Issues

HUD'S IMPLEMENTATION OF THE SEQUESTER

The sequester resulted in a \$175.3 million reduction in HUD's spending authority for fiscal year 1990. It was achieved through a \$173.1 million reduction in appropriations and a \$2.2 million reduction in loan and other spending authority.

The sequester rate varied by budget account, from a low of 0.05 percent for the renewal of expiring Section 8 housing subsidy contracts to a high of 1.36 percent for (1) agency salaries, training, rents, and other administrative costs and (2) operating subsidies for low-income housing projects. These variations were due to provisions in the Balanced Budget Act that apply when an agency's appropriations are not enacted by the October 15 sequestration deadline. HUD's appropriation act for fiscal year 1990 was enacted in November 1989. As a result, HUD's overall appropriation was reduced by 1.18 percent instead of 1.4 percent, and its loan and other spending authority was reduced by 0.19 percent.

IMPACT OF SEQUESTER ON
HUD'S PROGRAM MISSION

HUD officials had difficulty isolating the effects of the sequester from other fiscal year 1990 budget reductions. For example, the Congress reduced HUD's original \$14.9 billion appropriation by \$230.1 million primarily to fund the government's war on drugs. This figure was \$57.0 million more than the sequestered amount. In addition, the sequester's full impact on certain HUD programs will not be known until all funding decisions are completed.

In general, according to HUD officials, the sequester's impact varied by program, depending on (1) the size of the sequester; (2) the existing staffing and/or funding level of the program; (3) the impact of other budgetary actions, such as the federal pay raise and changes in staff-year costs; and (4) external factors, such as increases in the number of eligible grant recipients.

According to the Director, Office of Budget, HUD's Salaries and Expenses account--which funds salaries, training, travel and other personal and non-personal services--was significantly affected by the sequester because it was already underfunded and also had to absorb the cost of the federal pay raise in fiscal year 1990. Specifically, the account lost 259 of the 13,620 staff-years authorized for
