

GAO

Report to the Chair, Subcommittee on
VA, HUD and Independent Agencies,
Committee on Appropriations, U.S.
Senate

August 1993

ASSISTED HOUSING

Evening Out the Growth of the Section 8 Program's Funding Needs



**Resources, Community, and
Economic Development Division**

B-248459

August 5, 1993

The Honorable Barbara A. Mikulski
Chair
Subcommittee on VA, HUD and
Independent Agencies
Committee on Appropriations
United States Senate

Dear Madam Chair:

The Department of Housing and Urban Development's (HUD) section 8 rental assistance program provides housing subsidies that allow about 2.8 million lower-income households to obtain decent and affordable housing from private owners. HUD provides these subsidies through over 40,000 contracts with local housing agencies, state housing finance agencies, and private owners. A significant number of these contracts will expire within 5 years, and the resulting estimated cost to renew these contracts will rise from about \$6.3 billion in fiscal year 1994 to over \$15 billion in fiscal years 1997 and 1998. Given that the Subcommittee must allocate budget authority for the many federal activities within its jurisdiction, both now and in the near future, you asked whether approaches could be applied to even out the growth of budget authority needed to renew expiring section 8 contracts. If this growth is not evened out, any large increase in budget authority needs for section 8 renewals may have to be offset through reductions in other activities under the Subcommittee's jurisdiction.

In response to your request, we are reporting on (1) estimated budget authority needs to renew expiring section 8 rental housing assistance contracts in fiscal years 1994-98, (2) ways to even out the growth in budget authority for contract renewals, and (3) the relationship between budget authority needs to fund contract amendments (additional budget authority provided for contracts that have insufficient funds remaining) and budget authority needs to renew expiring contracts.

Results in Brief

HUD has estimated that the budget authority needed to renew section 8 contracts will increase from over \$6 billion in fiscal year 1994 to over \$15 billion in fiscal years 1997 and 1998,¹ primarily because more contracts

¹All dollar amounts are expressed in terms of current dollars. Also, unless otherwise noted, dollar amounts represent budget authority amounts.

are due to expire in these years. As documented in HUD and congressional reports and in our correspondence to this Subcommittee, HUD's information systems do not contain accurate information on renewal needs. Therefore, in the past HUD has sometimes understated renewal needs. For example, in fiscal year 1993 HUD had to increase its estimate by \$200 million. Regardless of these errors, however, even if the estimates for fiscal years 1997 and 1998 differ by similar or even somewhat larger amounts, renewal needs in those years can be expected to be much larger than they are today.

Several approaches exist to even out this expected growth in budget authority for contract renewals. These approaches are designed to provide more budget authority now, so that less budget authority needs to be provided 3 to 5 years from now. However, because of competing budget demands, these approaches may also present difficult choices for the Congress.

There is no clear relationship between budget authority needs for contract amendments and the growth in budget authority needs for contract renewals. Primarily because their information systems do not allow them to do so, HUD officials cannot quantify the expected future budget authority needs for amendments to section 8 contracts. HUD officials expect that budget authority needs for amendments for certain section 8 programs will decrease over time, because an increasing proportion of these contracts will have 5-year terms rather than 15-year terms, and HUD should be better able to estimate subsidy needs for the shorter 5-year contract period. Still, existing long-term contracts for other section 8 programs that are not due to be renewed in the next several years may result in substantial amendment needs in the coming years.

Background

The three major kinds of HUD section 8 rental housing assistance are (1) tenant-based certificates, (2) tenant-based vouchers, and (3) project-based assistance. Generally, assisted households may use certificates and vouchers to rent from any private owner whose housing units meet rent and quality standards. Households using certificates generally are limited to paying 30 percent of their income for rent. Households with vouchers may elect to pay more or less than 30 percent of their income for rent, depending on the rent charged for the unit in which they elect to live. For certificates and vouchers, HUD contracts with local housing agencies, such as public housing agencies, to operate the

program. The local housing agencies pay the rent subsidies to owners of private rental housing on behalf of the assisted households.

Households receiving project-based assistance must live in designated projects and generally pay 30 percent of their income for rent. For this program, HUD contracts directly with and provides rent subsidies to the owners of private rental housing and state housing finance agencies, rather than paying through local housing agencies.

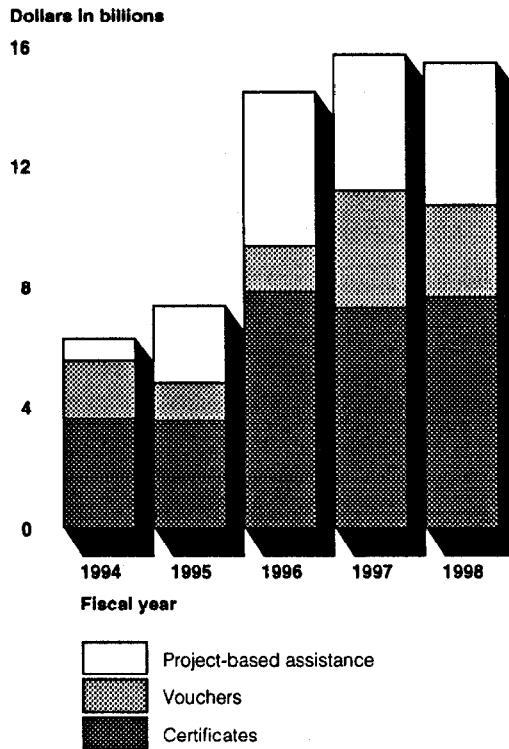
Budget authority for HUD's section 8 assistance is provided to (1) renew expiring contracts to maintain existing subsidies (called contract renewals), (2) create new contracts to increase the number of households that are being helped (called additional assistance), and (3) provide additional funds for existing contracts when the remaining contract funds are insufficient to pay subsidies over the remaining life of the contract (called contract amendments). Generally, the HUD subsidy is the difference between the "fair market rent" for a rental unit in the locality (adjusted for the number of bedrooms) and 30 percent of a household's income (adjusted for family size).

The Congress provides budget authority at one time to cover the expected subsidy costs for the life of the section 8 contract. Before 1989, the terms of assistance contracts were as short as 5 years and as long as 40 years, depending on the kind of assistance provided. Since 1989, HUD has renewed contracts for 5-year terms. If tenant-based certificate and project-based assistance contracts run out of funds before the end of the contract term, HUD requests additional budget authority for contract amendments from the Congress. HUD does not provide amendments for voucher contracts as a matter of policy. (See app. I.)

Budget Authority Needs for Renewals Expected to More Than Double Within 5 Years

Section 8 contracts covering about 1.7 million (61 percent) of the 2.8 million housing units are expected to expire in the next 5 years, according to HUD. HUD estimates that the budget authority needed to renew expiring certificate, voucher, and project-based assistance contracts will increase by about 141 percent, from \$6.3 billion to \$15.2 billion, from fiscal year 1994 to 1998, primarily because more contracts will expire in the coming years (see fig. 1). As this figure clearly shows, the greatest increase occurs between 1995 and 1996.

Figure 1: Expected Section 8 Renewal Needs in Fiscal Years 1994-98



Note: Total renewal needs for the 5-year period are about \$59 billion.

Source: GAO's analysis of HUD's data.

HUD's 5-year estimates of budget authority needs are subject to error because HUD has had problems in identifying contracts that need to be renewed. As noted earlier, in fiscal year 1993 these errors caused HUD to understate its estimates of renewal needs by \$200 million. Errors occurred because the information systems that HUD uses are incomplete and contain inaccurate information on the fiscal year in which contracts expire and the number of units covered by the contracts. These problems have been well-documented in congressional and HUD reports, as well as in our correspondence to this Subcommittee. As HUD obtained more accurate information, the Department revised its budget estimates.

HUD is acting to improve its financial management and budgeting capabilities, most notably by developing new financial budget and information systems. HUD expects that these new systems will produce budget estimates for fiscal year 1995, at the earliest. We will report at a later date on the portion of the Subcommittee's request on whether the new systems will meet HUD's financial and budget information needs. (See app. II.)

Approaches Exist to Even Out Budget Authority Growth for Contract Renewals

Several approaches exist for evening out the increasing budget authority amounts that will be needed to renew expiring section 8 contracts.² Some approaches will even out budget authority needs to a greater extent than others. These evening-out approaches could be applied to any 5-year period with increasing budget authority needs. Each approach typically has one or more drawbacks. The approaches are (1) reformulating contracts, (2) using "rolling reformulation," (3) renewing contracts rather than amending them, and (4) limiting ongoing assistance.

Contract reformulation involves HUD's terminating its tenant-based certificate and voucher contracts with each local housing agency and then entering into five separate contracts with each agency. (Our review of fiscal year 1993 renewal needs at three HUD field offices showed that some local housing agencies had as many as 19 individual contracts.³ Each contract would be composed of an equal number of units, and one contract would be set to expire in each of the following 5 years. Thereafter, each contract would be renewed for 5 years.

A key benefit of this approach is that it provides a high level of evening out for the contracts that are reformulated, because contracts for an equal number of units—and hence an equal amount of budget authority needed (except for the effect of inflation)—would be renewed each year. However, this approach has the drawback of probably not being appropriate for project-based assistance, which makes up about a third of the units expiring in fiscal years 1994-98.

Reformulation is probably not appropriate for project-based assistance because the approach would require project owners to give up their existing contracts with HUD and exchange a long-term subsidy (initially 15 to 40 years) for a short-term subsidy (as short as 1 year). Lower-income

²The scope and methodology section explains how these approaches were identified.

³See our letter to the Chair, Subcommittee on VA, HUD and Independent Agencies, Senate Committee on Appropriations, entitled Section 8 Budget Needs (GAO/RCED-92-187R, May 12, 1992).

housing often requires long-term subsidies to ensure continued viability, since rental income alone often cannot meet an owner's expenses and allow a profit. Because HUD cannot guarantee private owners that it will have sufficient funds to renew reformulated contracts in the future, private owners would likely be reluctant to enter into these shorter-term contracts. Therefore, the likely exclusion of project-based assistance from contract reformulation limits this approach's usefulness.

Finally, reformulation has no impact on the amount or timing of outlays because the same number of households would be assisted as would be assisted in the absence of reformulation. (Additional information on each option is discussed in app. III.)

Rolling reformulation involves staggering contract renewal terms by (1) lengthening the terms of all contracts expiring in a year in which a relatively small dollar volume of contracts will need to be renewed and (2) shortening the terms of all contracts expiring in a year in which a relatively large dollar volume of contracts will need to be renewed. Lengthening (shortening) the contract term will increase (decrease) budget authority renewal needs for a given year. For example, HUD could renew contracts expiring in fiscal year 1994 and 1995 for 9-year and 7-year terms, respectively. Renewal terms for 1996, 1997, and 1998 contracts would be for 3 years. Table 1 shows how rolling reformulation would affect renewal needs under this example.

Table 1: How Rolling Reformulation Evens Out Renewal Needs

Dollars in Billions					
Approach	1994	1995	1996	1997	1998
Current HUD estimate	\$ 6.3	\$ 7.3	\$14.4	\$15.7	\$15.2
Rolling reformulation	11.3	10.2	8.6	9.4	9.1
Year of next renewal	2003	2002	1999	2000	2001

Note: Table III.2 in appendix III shows how we calculated the amounts under rolling reformulation and the extent to which inflation adjustments are incorporated.

Table 1 shows that HUD's current estimate of renewal needs increases from \$6.3 billion in 1994 (the lowest year) to \$15.7 billion in 1997 (the highest year), a difference of \$9.4 billion. Using rolling reformulation, the difference is only \$2.7 billion (from \$8.6 billion to \$11.3 billion), or \$6.7 billion less than under HUD's current estimate. The evening out of budget authority needed under rolling reformulation occurred because the reduction in budget authority needed in fiscal years 1996-98 (years with

large number of contracts to be renewed and 3-year contract periods) outweighed the increase in budget authority needed in fiscal years 1994 and 1995 (years with smaller number of contracts to be renewed and 9-year and 7-year contract periods, respectively).

Rolling reformulation would even out budget authority needs over a 5-year period, but whether it does so to a greater or lesser extent than the reformulation approach is somewhat problematical. On the one hand, rolling reformulation encompasses project-based assistance in that this approach does not require existing contracts to be rewritten in mid-term. In this respect, rolling reformulation may be expected to provide greater evening out. On the other hand, all else being equal, the reformulation process provides a finer smoothing mechanism than does the rolling reformulation approach because reformulation adjusts the amounts of funds needed, and rolling reformulation adjusts contract length as a proxy for budget authority funding needs. In addition, rolling reformulation would likely require adjustments in contract terms during succeeding 5-year periods until all contracts have been renewed at least once, because renewals during fiscal years 1994-98 would not include all contracts that need to be renewed. For example, 15-year contracts written in fiscal year 1985 would need to be renewed in the year 2000 and are outside the fiscal year 1994-98 renewal period, in this example.

As with the reformulation approach, rolling reformulation would have no impact on the amount or timing of outlays, because the same number of households would be assisted as would be assisted in the absence of rolling reformulation.

Renewing rather than amending contracts involves renewing contracts for 5-year terms when they need amendment budget authority, rather than providing amendment budget authority for the remainder of the contract term. This approach would make budget authority needs for renewals more even by increasing renewal budget authority needs in the early years of a 5-year period and reducing them in the latter years of the period. For example, a 15-year contract due to expire in 1997 but needing amendment budget authority in 1994 would, instead, be renewed in 1994 for 5 years (thereby increasing budget authority needs to renew contracts in fiscal year 1994 and decreasing renewal needs in 1997). The contract would not need to be renewed again until 1999.

This approach likely provides limited evening out of overall renewal budget authority needs, since it involves only contracts needing budget

authority amendments—a subset of all contracts. Second, although the approach could be used for certificate contracts and project-based assistance, it does not apply to vouchers (about 20 percent of the estimated budget authority renewal needs over fiscal years 1994-98), since HUD does not provide voucher amendments. Finally, determining the budget authority renewal needs of contracts that would otherwise be amended may be difficult, because HUD's information systems do not possess the ability to accurately estimate future amendment needs.

As with the previously described approaches, the approach of renewing contracts rather than amending them would have no impact on the amount or timing of outlays.

Under the limiting assistance approach, HUD and the Congress could discontinue the policy of renewing all expiring contracts in years with relatively large renewal budget authority needs. This action would directly reduce budget authority needs for contract renewals; ultimately it would reduce outlays.⁴ Budget authority needed for section 8 assistance would be evened out to the degree that policy makers are willing to make program reductions. For example, on average for fiscal years 1994-98, reducing budget authority by \$1 billion would eliminate 5 years of section 8 housing assistance for about 29,000 households. The “benefit” of the limiting assistance approach is also the most obvious drawback: abandoning a history of not only continuing all ongoing assistance through contract renewals, but also expanding it through providing additional assistance to help more lower-income households find decent and affordable housing.⁵ Also, if this approach were applied to project-based assistance, it could lead to greater defaults on HUD-insured projects that rely on section 8 subsidies to help maintain financial viability, creating greater insurance losses. Finally, the limiting assistance approach is arbitrary. Some very-low-income households may lose assistance simply because the contract that assisted them happens not to be renewed, while other households that are clearly better off may continue to receive section 8 assistance because the contract under which they receive assistance is renewed.

⁴In addition, HUD and the Congress could reduce overall section 8 budget authority needs by providing little or no additional assistance. On average, the Congress has provided section 8 budget authority for about 53,000 additional households in each of fiscal years 1990-92.

⁵The median income for families assisted through certificates and vouchers was \$7,060 in 1989, according to a March 1992 HUD report entitled Characteristics of HUD-Assisted Renters and Their Units in 1989.

An alternative way of limiting assistance would be to require housing agencies to not reissue certificates and vouchers when they are turned in by households. For example, an assisted household must turn in its certificate or voucher when its income rises to the level where it no longer qualifies for section 8 assistance, or when it cannot find housing meeting HUD's rent and quality standards after a certain period of time. The benefit of this alternative to the limiting assistance approach is that it does not involuntarily take assistance away from households that receive it. From that point of view, it might be considered a less painful approach to limiting assistance.

This alternative to the limiting assistance approach has a number of drawbacks. First, it provides less certainty of reductions in budget authority that will be achieved, because HUD and the Congress have no way of predicting with certainty (1) how many households will turn in their certificates or vouchers or (2) at what time during the renewal year the households will turn them in. Both of those factors affect the subsidy dollars that might be saved. Second, as with the previous alternative, not reissuing certificates/vouchers probably does not apply to project-based assistance. Third, this alternative would likely be more burdensome to implement, since HUD would have to amend each assistance contract with local housing agencies to reduce subsidy amounts once certificates or vouchers were not reissued, rather than just letting contracts expire.

Other Considerations Affecting All Approaches

The result of the first three approaches is to shift budget authority needs to the near term by providing more budget authority today so that less has to be provided tomorrow. The shifts achieve the evening-out objective but, because of competing federal budget needs, may pose difficult choices for policy makers. In this respect, to the extent that any of the approaches, if adopted, increase the budget authority needs beyond the discretionary limits defined in the Budget Enforcement Act, offsetting budget authority cuts in other discretionary spending areas may be necessary.⁶

The approaches discussed above are not mutually exclusive. Also, an approach could be applied to a subset of contracts, such as tenant-based certificate contracts, rather than all contracts. Limiting an adopted approach to one or two programs might be attractive when (1) the administrative burden of implementing the approach for all programs

⁶According to the April 1993 U.S. government budget document, the discretionary spending caps for fiscal years 1994 and 1995 are \$509.9 billion and \$517.4 billion, respectively. As of July 1993, the Congress had not adopted Budget Enforcement Act spending caps beyond fiscal year 1995.

might be too large or (2) the opportunity to mitigate another drawback exists.

Finally, for any of these approaches to work well, HUD will need to be able to accurately identify (1) existing contracts, (2) the expiration date of these contracts, (3) the number of units in the expiring contracts, and (4) information needed to compute the HUD subsidy (e.g., rent and family income). HUD's management information systems currently do not possess accurate information on expiring contracts. The Department is attempting to rectify this situation. (See app. III.)

Relationship of Contract Amendment Needs to Growing Renewal Needs Is Uncertain

HUD amends contracts to provide additional budget authority when remaining budget authority is insufficient to fund subsidies to the end of the contract term. Amendment needs arise because either rents increased more than expected, tenant income did not grow as much as expected, or both. Additional budget authority needs for contract amendments for all section 8 programs have been substantial, averaging about \$1.4 billion annually in fiscal years 1988-92.

No clear relationship exists between budget authority needs for contract amendments and the growth in budget authority needs for contract renewals. Since the number of contracts entering the final years of their contract terms is increasing, as reflected in the increase in units that will need to be renewed in fiscal years 1994-98, amendment needs might be expected to grow as well.

On one hand, however, HUD officials expect that budget authority for tenant-based certificate and project-based loan management⁷ amendments should decrease over time. They base their expectation on the fact that HUD has been replacing 15-year certificate and loan management contracts with 5-year contracts since renewals for these two programs began in fiscal year 1990.

In this respect, shorter-term contract periods should allow HUD to more accurately predict factors that affect cost: tenant income and rents. Additionally, a 5-year contract that is renewed twice for 5 years (totaling 15 years) will need less amendment budget authority than a 15-year contract will need—even though total budget authority needs may be the same. This occurs because an increase in subsidy costs that would have

⁷The loan management program is designed to reduce claims on HUD's insurance fund by providing section 8 assistance to HUD-assisted projects with immediate or potentially serious financial problems.

triggered amendment needs in a 15-year contract is included in the subsidy calculation in a contract that is renewed every 5 years. In this case, budget authority needed for contract renewals increases and budget authority needed for contract amendments decreases by the same amount.

On the other hand, HUD officials could not quantify the expected future budget authority needs for amendments to project-based assistance contracts, primarily because their information systems do not allow them to do so. For these programs, although need for additional amendment budget authority is likely, longer-term estimates of amendment needs may be speculative. Because many contracts have 40-year terms, it would be difficult to reliably estimate amendment needs that may occur so far in the future. The tenant-based voucher program does not receive amendment funding, as a matter of HUD policy. (See app. IV.)

Agency Comments and Our Evaluation

We requested written comments from HUD, but they were received too late to be included in this report. However, we had already discussed and addressed the essence of HUD's written comments with HUD's Chief of the Assisted Housing Branch in its Office of Budget, the Acting Director for Assisted Housing in the Office of Public and Indian Housing, and a program analyst for multifamily programs representing HUD's Office of Preservation and Property Disposition. HUD officials were in general agreement with the draft report's contents. In particular, they noted that HUD's lack of available and reliable data about its section 8 contracts has hampered its efforts to estimate budget requirements. Until they are resolved, these data problems will also impede any efforts to even out budget authority needs for contract renewals. HUD officials also offered a number of technical suggestions and clarifications, which we incorporated where appropriate.

Scope and Methodology

To determine budget authority needs to renew expiring section 8 contracts, we relied upon HUD's estimates for fiscal years 1994-98. We obtained estimates and supporting documentation and interviewed HUD officials to determine how the estimates were prepared.

To examine ways to even out the growth in budget authority needed to renew section 8 contracts, we obtained HUD documents about approaches on how to even out budget authority funding needs and asked HUD, Congressional Budget Office, Congressional Research Service, and Office of Management and Budget officials about other possible approaches. We

then asked these officials about their views on the merits and drawbacks of each approach. These approaches attempt to even out budget authority needs for the existing level of housing assistance over a 5-year period. However, they do not take into account additional units that are likely to be added to the stock of assisted housing units during this period. In that case, the evening-out approaches could be reapplied in subsequent 5-year periods to account for additional assistance provided.

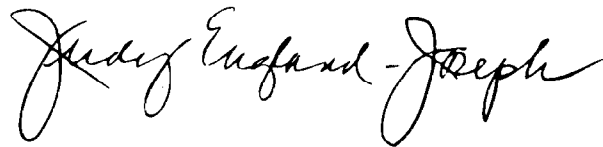
Finally, to examine the relationship between budget authority needs to renew contracts and amend contracts, we obtained HUD program and budget documents on past, present, and expected future amendment needs and discussed them with HUD officials.

To achieve the assignment's objectives, we relied on HUD's information systems that are known to be inaccurate. In appendixes I and II, we discuss the (1) problems with HUD's information systems, (2) historical size of errors in the Department's renewal estimates, and (3) likely effect on HUD's estimates of budget authority needed to renew section 8 contracts. Because of these known problems and because HUD is working to improve its information systems, we did not attempt to verify the validity of the HUD data. However, despite these errors, budget authority needs are likely to double within the next 5 years. Except as noted, we performed our review in accordance with generally accepted government auditing standards, from February 1992 to August 1992 (with updates through June 1993).

Copies of this report are being sent to congressional committees and subcommittees interested in housing and budget matters; the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-7631. Major contributors to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in cursive script that reads "Judy A. England-Joseph".

Judy A. England-Joseph
Director, Housing and Community
Development Issues

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Abbreviations

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget

Background

The Department of Housing and Urban Development's (HUD) section 8 rental assistance program provides housing subsidies to about 2.8 million lower-income households. HUD provides these subsidies through over 40,000 contracts with housing agencies and private owners. The assistance takes three forms: (1) to renew expiring contracts to maintain existing subsidies, (2) to create new contracts to add to the number of households that are being helped, and (3) to provide additional funds to existing contracts when the remaining funds are insufficient to pay subsidies over the remaining life of the contract (called "contract amendments").

HUD's management information systems have not provided accurate information on when section 8 contracts expire and on the amount of money required to renew these contracts. As a result, HUD has been unable to provide accurate information to the Congress on its section 8 budget needs. To remedy this problem, HUD is developing a new management information system. HUD expects this new system to produce budget estimates for fiscal year 1995, at the earliest.

Section 8 Program Provides Rent Subsidies for Lower-Income Households

Since it began in fiscal year 1975, HUD's section 8 rental housing assistance program has become one of the agency's principal means of providing lower-income households with decent, safe, and affordable housing. About 2.8 million households receive section 8 assistance. According to HUD, it has entered into over 40,000 contracts with housing project owners, state housing finance agencies, and local housing agencies, such as public housing agencies,¹ to provide section 8 subsidies for these households. Generally, the subsidy that HUD pays is the difference between the "fair market rent" for a rental unit in the locality (adjusted for the number of bedrooms) and 30 percent of household income (adjusted for family size and other factors).

Three major types of section 8 assistance exist: (1) tenant-based certificates, (2) tenant-based vouchers, and (3) project-based assistance. Generally, households may use certificates and vouchers to rent from any private owner whose housing units meet rent and quality standards. Households using certificates generally are limited to paying 30 percent of their income for rent. Households with vouchers may elect to pay more than 30 percent of their income for rent, if they are willing to pay the difference themselves. Similarly, they may find a less expensive unit and keep the difference. Households receiving project-based assistance

¹Public housing agencies are instrumentalities of local government. Section 8 assistance is also provided to a limited extent through Indian housing authorities.

generally are limited to paying 30 percent of their income for rent. To provide the assistance, HUD generally contracts directly with owners of private rental housing or state housing agencies. To use the project-based section 8 assistance, households must live in the designated projects.

In fiscal year 1992, the project-based assistance program was the largest of the three programs in terms of number of households assisted (almost half the households assisted). However, outlays for the certificate program and project-based assistance each consumed over \$5 billion (see table I.1).

Table I.1: Size of the Section 8 Program, Fiscal Year 1992

Program	Number of households assisted (percent of total)	Estimated dollar outlays (percent of total)
Certificates	1,032,110 (37)	\$ 5,232,000,000 (43)
Vouchers	294,140 (10)	1,217,000,000 (10)
Project-based assistance	1,470,363 (53)	5,825,000,000 (47)
Total	2,796,613 (100)	\$12,274,000,000 (100)

Source: HUD.

Budgeting for Section 8 Assistance

The Congress provides budget authority² at one time to cover the aggregated subsidy costs for new section 8 contracts and those expected to be renewed in the budget year. Although before 1989 some contracts were for as short a time as 5 years, many tenant-based assistance contracts were for 15 years, and some project-based assistance contracts were for as long as 40 years. Since fiscal year 1989, renewals for tenant-based certificate and voucher contracts and project-based loan management program have been written for 5-year terms. Other forms of project-based assistance have not needed renewal funding (see app. II).

The Congress provides budget authority to HUD for three kinds of section 8 funding needs:

- **New assistance** is for additional units that increase the number of households that are assisted.
- **Renewal assistance** is to renew expiring contracts. Contracts must be renewed at the end of the contract term, if subsidies are to be continued. Section 8 contracts first became eligible for renewals in fiscal year 1989. Current policy is to renew each expiring contract.

²Budget authority is authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

- Contract amendments result when funds in ongoing section 8 contracts are not sufficient to cover costs over the life of the contract.³ Typically, amendments are needed for longer-term contracts (e.g., 15 years or more) when rental costs (and hence HUD subsidies) are higher than the amount HUD projected when it budgeted for the cost of the contract. Amendments may be for any term, although they cannot exceed the remaining length of the contract being amended.

While the Congress appropriates budget authority up front to cover the entire contract period, HUD provides only a portion of the budget authority to local housing agencies and project owners each year. The budget authority allocated to a contract is divided into annual amounts, called “contract authority,” to pay section 8 subsidies to landlords and to cover the housing agencies’ costs of operating their programs. Local housing agencies and owners not using all of their contract authority in 1 year can use it in subsequent years of the contract. This unused contract authority becomes part of a reserve account. If in later years subsidy costs are greater than the contract authority for that year, local housing agencies and project owners can draw on the reserve.

For project-based assistance, HUD enters into a separate contract with an owner each time that it agrees to provide subsidies for additional units. Owners provide HUD with reports on how they spend funds under each contract. In contrast, for tenant-based certificate and voucher contracts, historically HUD incorporated each allocation of new assistance into a consolidated contract with a local housing agency. As a result, local housing agencies’ consolidated contracts consist of many allocations provided in previous years. HUD requires that local housing agencies report on how they spend funds for the consolidated contract as a whole, rather than for each separate allocation for new assistance.

³HUD has a policy of not amending voucher contracts. If funds are insufficient to continue assistance to families for the remainder of the contract term, public housing agencies must reduce the number of families being assisted.

HUD Has Had Difficulty in Estimating Its Section 8 Renewal Needs

HUD cannot provide accurate estimates of section 8 contract renewal needs because its management information systems do not provide accurate information on the budget authority needed to renew expiring contracts. These problems have been well-documented in congressional, GAO, HUD Office of Inspector General (OIG), and joint HUD-Office of Management and Budget (OMB) "SWAT team" reports.⁴ The causes for HUD's budget estimation problems include the following:

- Section 8 data bases are incomplete and contain inaccurate information on the fiscal year in which contracts expire and the number of units covered by the contracts.
- Consolidated contracts funded before fiscal year 1988 did not include information on the expiration dates of the individual contracts that made up the consolidated contract.⁵ While many individual contracts had 15-year terms, others did not. Also, 15-year contracts written in the same calendar year could expire in different fiscal years, leading to misidentification of renewal needs in a fiscal year when contract expiration dates were not explicit. HUD field staff often had to search several sources in their files to determine when individual contracts were due to expire. They often did not determine contract expiration dates correctly. As a result, they sometimes did not identify contracts due to expire in a given fiscal year and included others that were not due to expire in that year.

Because of the inadequacy of its management information systems, HUD, since 1988, has requested that its field offices review their files to identify the contracts that were due to expire in the coming fiscal year and the estimated costs to renew those contracts. These efforts have not resulted in quality data from which to produce budget estimates, as documented by the HUD OIG, HUD-OMB SWAT team, and our correspondence to the Senate Appropriations Subcommittee for HUD.⁶ HUD field offices (1) missed contracts that were due to expire, (2) incorrectly included other contracts that were not due to expire, and (3) made mathematical errors in their estimates of the subsidies needed to renew contracts.

⁴These reports include September 13, 1989, and July 11, 1991, Senate Appropriations Subcommittee reports for HUD (Senate Reports 101-128 and 102-107); GAO letters dated February 4, 1992, and May 12, 1992, to the Chair, Subcommittee on VA, HUD and Independent Agencies, Senate Committee on Appropriations; two HUD OIG reports entitled Review of HUD's Fiscal Year 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments (92-TS-103-0008, Apr. 21, 1992) and Survey of HUD's Efforts to Properly Account and Budget For Section 8 Funds (90-TS-103-0010, Apr. 24, 1990); and the November 6, 1991, HUD-OMB joint SWAT team report entitled Final Report on Management of Section 8 Housing Assistance Programs.

⁵Contracts funded since fiscal year 1989 have explicitly stated expiration dates.

⁶The reports and correspondence are cited in footnote 4.

As the errors with renewal and amendment estimates become known, HUD has to revise its budget estimates, making the budgeting and appropriations process more difficult. For example, in fiscal year 1993, HUD had to revise its budget estimates after it had submitted them to the Congress. HUD increased its fiscal year 1993 estimate of renewal budget authority needs from \$7.3 billion to \$7.5 billion, because ongoing headquarters attempts to reconcile information in its data bases with information from its field offices led HUD to discover an additional 6,299 units with contracts due to expire.

HUD faces similar problems in estimating amendment needs, because its information and accounting systems cannot produce reliable estimates and because information supplied by its field offices is not always accurate. For example, HUD lowered its fiscal year 1993 estimate of amendment budget authority needs for tenant-based certificates by over \$300 million (from \$712.5 million to \$400 million). The original estimate, included in the budget request to the Congress, was an "educated or best guess," according to a HUD OIG report. HUD used the "educated guess" because a field office survey did not produce reliable information. A second survey, completed after HUD sent its budget request to the Congress, produced what HUD believes is a more reliable \$400 million estimate.

HUD Is Acting to Improve Its Financial Management and Budgeting

HUD is acting to improve its financial management and budgeting capabilities, most notably through its development of new management information systems. HUD expects these systems to produce budget estimates for fiscal year 1995, at the earliest.

Section 8 Contract Renewal Needs Expected to More Than Double Within 5 Years

HUD has estimated that the budget authority needed to renew expiring section 8 contracts will more than double in the next 5 years, from about \$6.3 billion in fiscal year 1994 to about \$15.2 billion in fiscal year 1998.¹ For the most part, the increases result from an expected increased number of section 8 contracts that are due to expire. The estimates are subject to an unknown degree of error because HUD derived them from its data bases, which are known to be inaccurate. However, even if actual fiscal year 1998 budget authority needs differ by as much as, say, \$1 billion to \$2 billion, the estimates still show a large growth in budget authority needed to renew expiring contracts.

Renewal Needs Expected to Grow Substantially in the Next 5 Years

Section 8 contracts containing about 1.7 million (61 percent) of the 2.8 million housing units are expected to expire in the next 5 years, according to HUD. HUD has estimated that its needs for budget authority to renew expiring section 8 contracts will increase from about \$6.3 billion to about \$15.2 billion (141 percent) in fiscal years 1994-98 (see table II.1).

Table II.1: Estimated Budget Authority Needed to Renew Expiring Section 8 Contracts, Fiscal Years 1994-98

Dollars in Billions

Fiscal year	Tenant-based assistance		Project-based assistance		Total
	Certificates (percent of total)	Vouchers (percent of total)	Loan management ^a (percent of total)	Other (percent of total)	
1994	\$ 3.6 (57)	\$ 1.9 (31)	\$ 0.6 (9)	\$0.2 (3)	\$ 6.3
1995	3.5 (48)	1.3 (17)	0.7 (9)	1.9 (26)	7.3
1996	7.8 (54)	1.5 (10)	3.9 (27)	1.2 (8)	14.4
1997	7.3 (46)	3.9 (25)	3.1 (20)	1.4 (9)	15.7
1998	7.4 (49)	3.0 (20)	3.3 (22)	1.4 (9)	15.2
Total	\$29.6 (50)	\$11.6 (20)	\$11.6 (20)	\$6.1 (10)	\$58.9

Note: Totals may not add due to rounding. These estimates were derived from inaccurate data bases and used simplifying estimation procedures. See text.

^aThe loan management program provides section 8 assistance to troubled HUD-assisted multifamily projects to help maintain their viability as lower-income housing. Before fiscal year 1993, it was the only project-based assistance program in which contracts have been renewed.

Source: HUD, Congressional Justifications for 1994 Estimates (April 1993).

¹Throughout this report, dollar amounts are expressed in terms of current dollars. Similarly, unless otherwise noted, budget amounts are in terms of budget authority.

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Section 8 Contract Renewal Needs Expected
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**Future Actual
Renewal Needs Will
Likely Differ From
Estimated Needs**

Actual renewal needs for fiscal years 1994-98 will likely differ from HUD's estimate. The largest source of differences is likely to result from the inaccurate data bases that HUD currently uses. Smaller differences will likely result from the way HUD calculated the estimates, as required by the Omnibus Budget Reconciliation Act of 1990.

**Data Bases Used to Derive
Estimates Are Not
Accurate**

As discussed in appendix I, HUD's existing section 8 data bases cannot provide accurate information on the year in which contracts will expire and the number of units in the expiring contracts. Although the degree of error in HUD's current estimates is unknown, the historical differences between its budget estimates and actual (or more current) estimates have been large. As shown in table II.2, for 4 of the 6 years (fiscal years 1989-94) HUD's long-range estimates have differed from actual (or current estimated) renewal needs by more than 10,000 to 20,000 units.² The average of the cost to renew assistance over the 1994-98 fiscal year period is \$6,900 per unit per year. Thus, a difference of 10,000 to 20,000 units results in a change of \$345 million to \$690 million in budget authority needs.

Table II.2: Comparison of Initial Budget Estimates to Actual Needs for Number of Units Included in Contract Renewals, Fiscal Years 1989-94

Fiscal year	Date of HUD estimate						Actual/latest estimate	Average of absolute difference (percent difference)
	Mar. 1987	Mar. 1988	Mar. 1989	Jan. 1990	Mar. 1991	Mar. 1992		
1989	1,437	1,437	1,437	N/A ^a	N/A	N/A	1,561 ^b	124 (8)
1990	12,640	12,640	23,644	41,492	N/A	N/A	39,771 ^b	18,028 (45)
1991	299,042	295,906	295,906	294,495	276,468	N/A	284,496 ^b	11,079 (4)
1992	218,595	253,988	251,853	250,389	250,389	252,313	246,886 ^b	8,799 (4)
1993	214,781	199,095	209,455	197,416	197,416	223,292	222,602 ^c	15,923 (7)
1994	207,361	173,524	185,678	173,401	173,471	261,481	188,219 ^c	23,213 (12)

^aNot applicable.

^bBased on funding commitments (reservations) to housing agencies and project owners.

^cHUD estimate as of April 1993.

Source: GAO analysis of HUD budgets.

²We did not compare the estimated dollar value of out-year estimates in the six HUD budgets because they were not comparable. In some years, HUD's estimates assumed that all contracts would be replaced with voucher contracts, and in other years, the estimates assumed that expiring contracts would be replaced with like contracts.

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However, even if future actual fiscal year budget authority is overstated by, say, 20,000 units in any year (representing about \$690 million in budget authority), HUD's estimates still expect a large growth in budget authority needed to renew expiring certificates in the coming years. As shown in table II.3, contract renewals are expected to increase from about 200,000 units in each of fiscal years 1994 and 1995 to more than 400,000 units in each of fiscal years 1996-98. Thus, potential errors in the historical 20,000-unit range are dwarfed by the expected increase in the number of expiring units.

Table II.3: Estimated Number of Section 8 Units to Be Renewed, Fiscal Years 1994-98

Fiscal year	Tenant-based assistance		Project-based assistance		Total
	Certificates (percent of total)	Vouchers (percent of total)	Loan management (percent of total)	Other (percent of total)	
1994	106,567 (57)	56,165 (30)	20,359 (11)	5,128 (3)	188,219
1995	101,846 (49)	35,808 (17)	23,624 (12)	44,948 (22)	206,226
1996	220,330 (51)	41,441 (10)	137,872 (32)	29,420 (7)	429,063
1997	200,264 (44)	104,420 (23)	106,666 (24)	40,493 (9)	451,843
1998	197,685 (46)	79,940 (19)	110,759 (26)	44,854 (10)	433,238
Total	826,692 (48)	317,774 (19)	399,280 (23)	164,843 (10)	1,708,589

Note: Percentage may not add to 100 due to rounding.

Source: HUD, Congressional Justifications for 1994 Estimates (April 1993).

**Omnibus Budget
Reconciliation Act
Requirements Provide
Simplified Estimating
Process**

The Omnibus Budget Reconciliation Act of 1990 specifies how HUD is to estimate contract renewal budget authority needs. In response to the act, in producing its estimate for the fiscal year 1994 budget year and for out years, HUD must (1) determine the annual budget authority per unit needed to renew the contract in the "current" year (fiscal year 1993 in this case), (2) determine the number of units affected by contract expirations in each of fiscal years 1994-98, and (3) multiply the fiscal year 1993 per unit renewal budget authority needs by the expected number of units to expire for each year of fiscal years 1994-98, as adjusted for inflation.

The Omnibus Budget Reconciliation Act of 1990 does not permit HUD's estimate to reflect the changing geographic distribution of renewals that could affect overall renewal costs. Future years' renewal costs can be expected to differ from HUD's estimate, because the geographic distribution of contracts to be renewed changes over time and because

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costs to renew contracts are different throughout the nation³ whereas the Omnibus Budget Reconciliation Act of 1990, in effect, requires that HUD assume a constant geographic distribution of expiring units.

As a result, to the extent that renewal needs in the future shift to higher (lower) cost areas of the country, renewal costs would be larger (smaller) than HUD's current estimate. Because HUD's data bases do not supply accurate information on expiring contracts, we did not attempt to re-estimate renewal needs using geographic distributions of expiring contracts specific to the years in which they expire.

³For example, HUD estimates the 5-year per unit certificate subsidy cost in fiscal year 1994 in the southeastern part of the country (HUD's region IV) will be \$29,030, while the expected 5-year per unit certificate subsidy cost on the West Coast (HUD's region IX), a much more expensive area for housing, will be \$43,267.

Approaches That Could Even Out Future Renewal Needs

As discussed in the previous appendix, HUD has estimated that budget authority to renew expiring section 8 contracts will more than double from fiscal year 1994 to fiscal 1998 (from \$6.3 billion to \$15.2 billion). HUD, with congressional approval, could use several approaches to even out the budget authority that the Department needs each year to renew these contracts. Some approaches will even out budget authority funding requirements to a greater extent than others. Also, each approach typically has one or more drawbacks. Four approaches to evening out budget authority needed over time are to:

- Reformulate contracts. For each housing agency, divide the number of certificates and vouchers administered into five equal parts. Renew each part for terms of 1 to 5 years.
- Use "rolling" reformulation. Adjust the terms of all contracts to be renewed in a single year, if necessary, so that over a 5-year period, renewal needs are more balanced.
- Renew contracts rather than amending them. Renewing contracts instead of amending them would increase budget authority needs in the short term (e.g., 1995). This approach would decrease renewals in later years (e.g., 1998) because the early renewal would place them in a different 5-year cycle.
- Limit new and ongoing section 8 assistance. Curtail the policy of renewing all expiring contracts. Limit additional (new) assistance provided each year.

To examine ways to even out renewal budget authority needs, we obtained HUD documents that outlined ideas on how to even out budget authority growth. We also asked HUD, Congressional Budget Office, Congressional Research Service, and OMB officials about other possible approaches. We then asked these officials about their views on the benefits and drawbacks of each approach.

The approaches attempt to even out budget authority needs for the existing level of housing assistance over a 5-year period. If additional units are added to the stock of assisted housing units during this period, the budget authority needs to renew contracts in succeeding 5-year periods would no longer be as even as in the initial 5-year period because of the added units. However, the evening-out approaches could be reapplied in subsequent 5-year periods to account for any additional assistance provided. The period we selected was 1994-98, using HUD's most recent estimates. However, the approaches discussed here could be applied to any 5-year period.

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Approaches That Could Even Out Future
Renewal Needs**

For these approaches to work well, HUD must be able to accurately account for existing contracts. That is, it would have to be able to identify (1) existing contracts, (2) the expiration date of those contracts, (3) the number of units in the contracts, and (4) the information needed to compute the HUD subsidy (e.g., rent and household income). However, HUD's management information systems currently do not possess accurate information on expiring contracts. HUD is attempting to rectify this situation (see app. I).

The approaches presented below are not mutually exclusive. Also, an approach could be applied to a subset of contracts, such as tenant-based certificate contracts, rather than all contracts. Limiting an adopted approach to one or two programs might be attractive where (1) the administrative burden of implementing the approach for all programs might be too large or (2) the opportunity to mitigate another drawback (as discussed below) exists.

Finally, the section 8 program is currently subject to the discretionary spending limits defined in the Budget Enforcement Act. To the extent that any of the approaches, if adopted, increase the amount of budget authority beyond that which would otherwise be available under the Budget Enforcement Act caps, offsetting budget authority cuts in other discretionary spending areas may be necessary.¹

Table III.1 summarizes the salient attributes of the four approaches for evening out renewal needs. The following sections describe each approach, the extent that evening out might occur, and the expected benefits and drawbacks of the approaches.²

¹According to the April 1993 U.S. government budget document, the discretionary spending caps for fiscal years 1994 and 1995 are \$509.9 billion and \$517.4 billion, respectively.

²The four options are those that HUD could apply, with congressional concurrence. Another approach, advance appropriations, would focus on how the Congress provides funds, that is, providing budget authority in advance of contract renewal needs. Under this approach, the Congress annually could appropriate one-fifth of the expected 5-year total for budget authority needed to renew expiring contracts. The "surplus" amount appropriated in the early years would be used in the later years of the 5-year period so that over 5 years all expiring contracts would be renewed. This approach would provide almost perfect flattening of budget authority for renewal needs (but would not work if early years' renewal needs are greater than later years' needs). However, it possesses the undesirable attribute of providing budget authority 1 or more years in advance of contract renewal needs.

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Table III.1: Attributes of Four Approaches for Evening Out Section 8 Budget Authority Renewal Needs

Approach	Applicability	Extent of evening out possible^a	Effort to administer^a	Difficulty in estimating initial costs	Other
Reformulation	Excludes project-based assistance	Moderate	Moderate	Moderate	May require additional budget authority to fully fund rewritten contracts
Rolling reformulation	All programs	Moderate	Small	Little	May require adjustment of contract terms after initial 5-year period
Renew rather than amend contracts	Excludes vouchers	Limited	Small	Moderate	If amendment needs are small, then limited evening of renewals will occur
Limit assistance	All programs	Great	Small	None (no up-front costs)	Reverses policy to maintain number of households assisted

^aRefers to the extent of evening out of renewal needs or efforts to administer the evening-out approach for the section 8 program as a whole. The extent of evening out or the effort to administer the evening-out process may differ for individual programs. See text.

The Contract Reformulation Approach

Contract reformulation involves HUD's terminating its existing tenant-based certificate and voucher contracts with housing agencies and rewriting them so that each local agency has five separate contracts with HUD.³ Each contract would be composed of an equal number of units (and hence equal budget authority needs, not considering inflation adjustments), and one contract would be set to expire in each of the following 5 years. Thereafter, each contract would be renewed for 5 years. As a result, the budget authority needed to renew contracts over each 5-year period would be equal. This approach would require congressional authorization to allow funding for post-fiscal-year 1988 contracts to be combined and to allow contracts to be less than 5 years.

This approach probably is not appropriate for project-based assistance because it requires project owners to exchange a long-term subsidy for a short-term subsidy. Lower-income housing often requires long-term subsidies to ensure continued viability because rents alone often cannot meet operating expenses; provide for reserves for improvements, major repairs, or project rehabilitation; and earn a profit. Subsidies, such as section 8, provide additional cash flow to the owner. Because HUD cannot guarantee private owners that it will have sufficient funds to renew reformulated contracts in the future, private owners would be reluctant to give up existing long-term contracts and enter into shorter-term contracts.

³A 1991 HUD reformulation proposal included pre-1989 tenant-based certificate contracts. This option includes all tenant-based certificate and voucher contracts.

Benefits of Reformulation

The primary benefit of reformulation is that it would even out budget authority needs for certificates and vouchers so that equal dollar amounts would be needed in each of 5 years. An additional benefit would accrue to HUD in that it will likely have fewer contracts to track (five) for each local housing agency. Our review of fiscal year 1993 renewal needs at three HUD field offices showed that local housing agencies' consolidated contracts had as many as 19 individual contracts.⁴

**Drawbacks of
Reformulation**

Perhaps the greatest drawback is that reformulation is probably not appropriate for project-based section 8 assistance, as discussed above. This limitation excludes roughly one-third of the section 8 program, in terms of both estimated budget authority and estimated number of units (see tables II.1 and II.3). Also, reformulating contracts will require considerable effort by HUD and local housing agency program staff and legal staff to rewrite thousands of contracts. They would also have to revise accounting information to end old contracts and replace them with new ones. This is no easy task and would rely heavily on the cooperation of over 2,000 housing agencies. (Reformulation is the only one of the four approaches that require terminating existing contracts. The other approaches change contract terms when they are due to be renewed or not at all.)

Another drawback is that HUD would need to determine whether additional budget authority would be needed for the rewritten contracts. Additional budget authority would likely be needed because some contracts will not have sufficient funds remaining to fully fund subsidies to the end of the contract term. Under the current funding approach, the contracts are given amendment budget authority when existing budget authority is insufficient to complete the term of the contract (see apps. I and IV). Determining these up-front budget authority funding needs to carry out reformulation may be difficult, in part, because HUD would need sound financial data that it does not always have. The drawback that is encountered is not so much that additional funds will be needed, since amendment funds would have to be provided in any case, but that it would be difficult to determine overall needs until sound financial information is available.

A related drawback is the uncertainty over whether additional budget authority would be needed because the term of the rewritten contracts

⁴See our letter to the Chair, Subcommittee on VA, HUD and Independent Agencies, Senate Committee on Appropriations, Section 8 Budget Needs (GAO/RCED-92-187R, May 12, 1992).

would not match the term of the old contracts (and hence the budget authority remaining under the old contracts). For example, suppose each of local agency A's contracts had 2 years' budget authority remaining. Under reformulation, new contracts (three-fifths of which have longer terms—3, 4, or 5 years) would replace the old contracts. Under this scenario, additional budget authority would be needed for reformulated contracts. Under a different scenario, suppose each of local agency B's contracts expires in 4 years. In this case, we would expect the agency to have excess budget authority that could be used to offset agency A's needs. Determining whether additional budget authority overall would be needed because of this "term mismatch" also requires that HUD's information systems be able to supply this information accurately.

Finally, if reformulating contracts causes budget authority needed to increase above the amount specified by the Budget Enforcement Act, offsetting discretionary budget authority cuts in other programs may be needed. However, reformulation would have no impact on the amount or timing of outlays, and hence no impact on the budget deficit, because the same number of households would be assisted as would be assisted in the absence of reformulation.

The Rolling Reformulation Approach

Rolling reformulation entails staggering contract renewal terms by (1) lengthening the terms of all contracts expiring in a year in which a relatively small dollar volume of contracts will need to be renewed and (2) shortening the terms of all contracts expiring in a year in which a relatively large dollar volume of contracts will need to be renewed. In addition, rolling reformulation requires that the set of contracts that are reformulated in any 1 year of the initial 5-year period expire in a unique year in the subsequent 5-year period. This approach is best described by example (see table III.2).

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Table III.2: Estimated Budget Authority Renewal Needs Using the Rolling Reformulation Approach

Dollars in Billions					
	1994	1995	1996	1997	1998
Current HUD estimate	\$ 6.3	\$ 7.3	\$14.4	\$15.7	\$15.2
Renewal amount under rolling reformulation	\$11.3	\$10.2	\$ 8.6	\$ 9.4	\$ 9.1
Basis for renewal amount under rolling reformulation ^a	Expiring contracts renewed for 9 years	Expiring contracts renewed for 7 years	Expiring contracts renewed for 3 years	Expiring contracts renewed for 3 years	Expiring contracts renewed for 3 years
Year of next renewal	2003	2002	1999	2000	2001

^aWe calculated rolling reformulation amounts for each renewal year by dividing HUD's current estimate for the fiscal year by 5 (5-year contract term) and then multiplying the result by the rolling reformulation contract term. For example, the fiscal year 1994 rolling reformulation renewal amount was obtained by dividing HUD's \$6.3 billion estimate by 5 and then multiplying the result by 9 ($(\$6.3 \text{ billion} \div 5) \times 9 = \11.3 billion). The rolling reformulation estimates incorporate inflation adjustments in the same manner as do HUD's estimates; that is, the previous renewal year's per unit cost is increased by 2.5 percent to 2.7 percent (depending on the renewal year) for the entire contract term.

In this example, contracts to be renewed in 1994 are renewed for 9-year terms, contracts to be renewed in 1995 are renewed for 7-year terms and contracts to be renewed in 1996, 1997, and 1998 are renewed for 3-year terms.

A reduction in the length of the renewal terms for 1996-98 renewals decreases the budget authority needed to renew these contracts. On the other hand, the longer contract term for 1994 and 1995 renewals increases the budget authority needed to renew contracts expiring in these 2 years. The range of budget authority needed is reduced from \$9.4 billion under HUD's current estimate (\$15.7 billion minus \$6.3 billion) to \$2.7 billion (\$11.3 billion minus \$8.6 billion) under the rolling reformulation approach. Overall budget authority needs for the 5-year period are reduced from \$58.9 billion to \$48.6 billion. Finally, the evening out is carried over to the subsequent 5-year period, because, in this example, each year's renewal activity (fiscal years 1994-98) will need to be renewed again in a unique year in the next 5-year period (fiscal years 1999-2003).

This approach would apply to project-based assistance as well as tenant-based assistance because it does not require contracts to be rewritten in mid-term. As with the reformulation approach, this approach would require congressional authorization to allow contracts to be written for other than 5-year terms.

**Benefits of Rolling
Reformulation**

This approach would even out budget authority needs over a 5-year period, but whether it does so to a greater or lesser extent than the reformulation approach is somewhat problematical. On one hand, rolling reformulation encompasses project-based assistance, while reformulation does not. In this respect, rolling reformulation may be expected to provide greater evening out. On the other hand, all else being equal, the reformulation process provides a finer smoothing mechanism than does the rolling reformulation approach because it adjusts the amounts of funds needed, and rolling reformulation adjusts contract length as a proxy for budget authority funding needs. Another benefit of rolling reformulation is that it would not increase the administrative burden on HUD or local housing agencies because it would not involve rewriting existing contracts or determining the remaining budget authority in the existing contracts. Finally, there would be no uncertainty about the up-front budget authority funding needs that exist with the reformulation approach.

**Drawbacks of Rolling
Reformulation**

The rolling reformulation approach would likely require adjustments in contract terms during succeeding 5-year periods until all contracts have been renewed at least once, because renewals during fiscal years 1994-98 would not include all contracts that need to be renewed. For example, 15-year contracts written in fiscal year 1985 would need to be renewed in the year 2000 and are not included in the example in table II.2. Second, this approach, like the reformulation approach, may run afoul of any Budget Enforcement Act discretionary spending limits. However, as with the reformulation approach, rolling reformulation would have no impact on the amount or timing of outlays, because the same number of households would be assisted as would be assisted in the absence of rolling reformulation.

**Renewing Contracts
Rather Than
Amending Them**

As the description implies, under this approach, rather than providing funds for contracts needing amendment budget authority funding, HUD would immediately renew these contracts for 5-year terms.

**Benefits of Renewing
Rather Than Amending
Contracts**

This approach would likely even out budget authority needs for renewing both certificate and project-based assistance contracts to a limited extent because not all contracts will need amendments. In addition, the approach would not apply to vouchers, since HUD's policy is not to provide amendments to voucher contracts. About one-fifth of estimated renewal needs over the 1994-98 period will be for vouchers, both in terms of

estimated budget authority needs and number of units (see tables II.1 and II.3).

The approach would raise renewal budget authority needs in the early years of a 5-year period, by the very act of renewing contracts for 5 years rather than amending them to cover shortfalls in contract funds. However, it would reduce renewal budget authority needs later during a 5-year period. Say, for example, during fiscal years 1994-98, a certificate contract needs amendment budget authority in 1996 and is due to expire in 1998. Under this approach, it is renewed in 1996 for 5 years, thus reducing renewal budget authority needs in 1998. Also, this approach, which would increase the proportion of certificate contracts that are 5 years in length versus 15 years, would likely decrease the need for subsequent amendment budget authority funding. This situation is beneficial, since 15-year contracts are more prone to amendments because of the greater difficulty in estimating rent and income levels over 15 years than over 5 years.

This approach would reduce the staff time devoted to amending contracts, although it would correspondingly increase the staff time devoted to renewing them. It would also mitigate the problem of estimating amendment needs, which has been prone to error (see apps. I and IV). Finally, this approach would require congressional concurrence in substituting renewal budget authority for amendment budget authority.

Drawbacks of Renewing Rather Than Amending Contracts

Determining the budget authority needed to renew contracts that would otherwise be amended may be difficult. HUD would have to identify the (1) individual contracts that would have been amended and (2) renewal budget authority needs of these contracts. Identifying these renewal needs would be subject to problems similar to those in past estimates, such as omission of contracts when HUD headquarters and field offices tried to determine which contracts need to be renewed in a fiscal year. Moreover, identifying the renewal needs of individual certificate contracts may be especially difficult, because these contracts are part of a "consolidated" contract consisting of many individual contracts. HUD has financial information on consolidated contracts but has little financial information on the budget authority funding needs of the individual contracts (see app. I).

A second drawback is that the dollar amount that would have been provided as amendments would not be sufficient to fully fund the contract

for a 5-year term. That is, a contract with less than 5-years' budget authority remaining when it needs amendment budget authority funding (but is renewed instead) will need additional budget authority to fund it as a renewal for the full 5-year term. This could pose a problem under Budget Enforcement Act discretionary spending limits and might require offsetting cuts in other federal programs. However, the approach of renewing contracts rather than amending them would have no impact on the amount or timing of outlays.

Limiting Ongoing Section 8 Assistance

Under the limiting assistance approach, HUD and the Congress could discontinue the policy of renewing each expiring contract. This action would directly eliminate renewal budget authority needs for tenant-based and project-based assistance contracts that are not renewed.⁵

Benefits of Limiting Assistance

The approach would even out the growth in renewal budget authority needs to the degree that policy makers are willing to reduce the number of households being assisted. For example, reducing budget authority by \$1 billion would eliminate section 8 housing assistance for about 29,000 households⁶—a difficult decision. This approach would also reduce section 8 program outlays. HUD would likely have little difficulty in implementing this action, other than deciding which contracts should not be renewed.

Drawbacks of Limiting Assistance

The most obvious drawback of the limiting assistance approach is discontinuing a history of maintaining all ongoing assistance through contract renewals (as well as expanding it to help more lower-income households find decent and affordable housing). Under this approach, the number of households assisted would decrease. Also, if this approach was applied to project-based assistance, it could lead to greater defaults on HUD-insured projects that rely on section 8 subsidies to help maintain financial viability, creating greater insurance losses. Finally, the limiting assistance approach is arbitrary. It denies assistance without regard to relative need. Some very-low-income households may lose assistance simply because the contract that assisted them happens not to be renewed, while other households that are clearly better off may continue

⁵If section 8 contracts were not renewed, HUD and the Congress presumably would act first to eliminate additional section 8 assistance that is typically provided each year. On average, the Congress added about 53,000 units each year in fiscal years 1990-92.

⁶Average number of families assisted per \$1 billion for contracts to be renewed in fiscal years 1994-98.

to receive section 8 assistance because the contract under which they receive assistance is renewed.

**Alternative Method to
Limiting Assistance
Focuses on Certificates
and Vouchers Turned in by
Households**

An alternative way of limiting assistance would be to require housing agencies to not reissue certificates and vouchers when they are turned in by households. For example, an assisted household must turn in its certificate or voucher when its income rises to the level at which it no longer qualifies for section 8 assistance, or it cannot find housing meeting HUD's rent and quality standards after a certain period of time. The benefit of this alternative to the limiting assistance approach is that it does not involuntarily take assistance away from households that receive it. It therefore might be considered a less painful approach to limiting assistance.

This alternative to the limiting assistance approach has a number of drawbacks. First, it provides less certainty of reductions in budget authority that will be achieved. Under the alternative of not renewing contracts, HUD and the Congress could set the budget authority reduction goal to achieve, and HUD could choose which contracts to allow to expire in order to meet the target reductions. However, under this alternative, HUD and the Congress have no way of predicting with certainty how many households will turn in their certificates or vouchers or at what time during the renewal year the households will turn them in—both factors affecting the subsidy dollars that might be saved—or where these households would be located. A study⁷ of over 7,500 recipients of certificates and vouchers during the mid-1980s showed that 11 percent of recipients terminated their assistance during the first year, either because they terminated their participation voluntarily (such as moving out of the area) or terminated it at the initiative of the local housing agency or the landlord.

Second, as with the previous alternative, this method of limiting assistance probably does not apply to project-based assistance because project-based assistance was provided to help keep the project financially viable. Finally, this alternative would likely be more burdensome to implement than the first alternative. Under the first alternative, HUD would need to take no action to let contracts expire. Under this alternative, HUD would have to amend each assistance contract with local housing agencies to reduce subsidy amounts once certificates or vouchers were not reissued.

⁷HUD, Final Comprehensive Report of the Freestanding Housing Voucher Demonstration (May 1990).

Budget Authority Needs for Contract Amendments Through Fiscal Year 1998 Are Uncertain

HUD requests amendment budget authority from the Congress when remaining budget authority for section 8 contracts is insufficient to fund the contracts to term. In this regard, amendment needs arise primarily because either rents increased more than expected, tenant income did not grow as much as expected, or both. An increasing number of contracts will be entering their final years of the contract period, as reflected by the increase in units that will need to be renewed during fiscal years 1994-98. If these contracts were all long-term contracts (e.g., 15-year contracts), amendment needs might be expected to increase as renewals grow, since the contracts are entering the final years of their contract terms.

HUD cannot estimate amendment needs during this period primarily because its information systems do not allow the Department to do so. However, for tenant-based certificate contracts and project-based loan management contracts, HUD expects that the need for additional budget authority for amendments will decrease over time. HUD officials base their expectations on the premise that an increasing proportion of contracts will have 5-year terms over time, as opposed to longer terms (e.g., 15-year contracts). As a result, the Department expects to be better able to estimate budget authority needs for the shorter-term contracts, thereby decreasing amendment needs. But other current, long-term, project-based contracts may need substantial amendment funding.

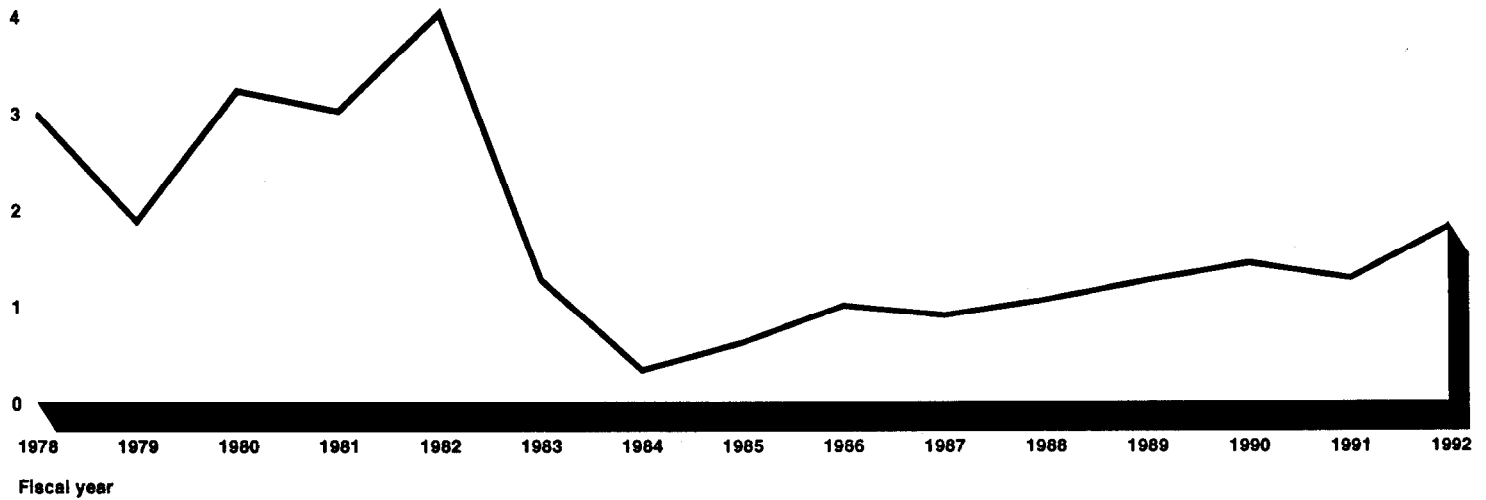
Budget Authority Needs for Contract Amendments Have Been Substantial

Even though the Congress initially provides budget authority expected to cover the total subsidy costs for the life of the section 8 contract, substantial additional budget authority for contract amendments has been a long-standing need for the section 8 program. Despite a marked decrease in amendment needs in the early 1980s, HUD has needed an average of about \$1.4 billion in additional budget authority for contract amendments in each of the last 5 years, fiscal years 1988-92 (see fig. IV.1). In fiscal year 1992, HUD needed \$1.82 billion in budget authority for contract amendments.

**Appendix IV
Budget Authority Needs for Contract
Amendments Through Fiscal Year 1998 Are
Uncertain**

Figure IV.1: Overall Amendment Budget Authority Needs, Fiscal Years 1978-92

5 Budget Authority for Amendments (Dollars in Billions)

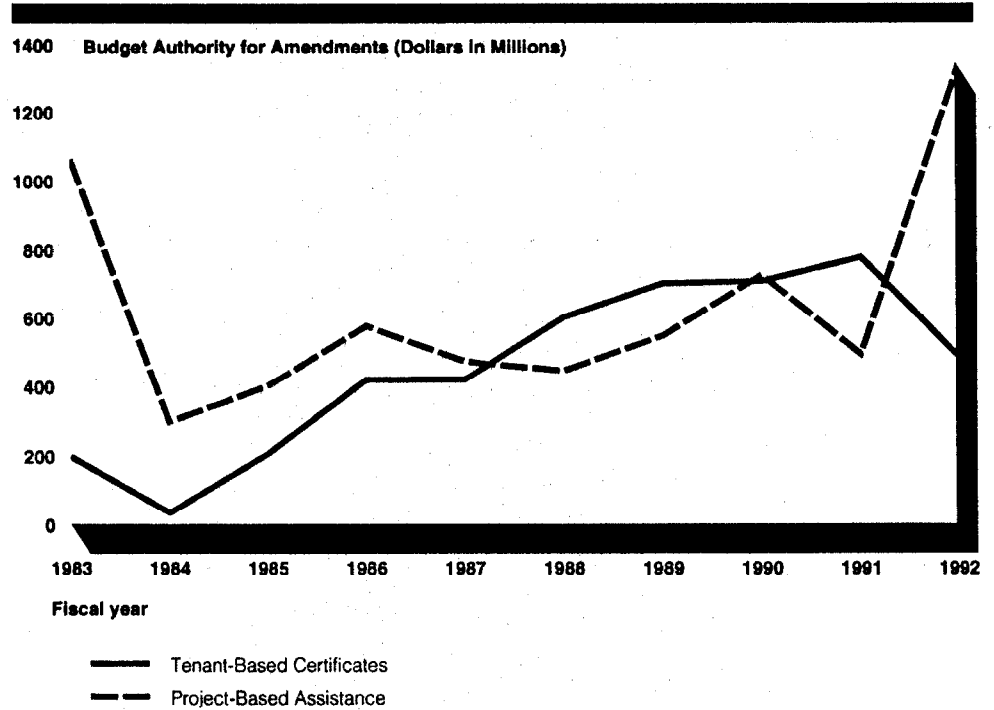


Source: GAO's analysis of HUD's data.

The relationship between budget authority needs for amendments for the tenant-based certificate program and for project-based assistance has been shifting (see fig. IV.2). Before fiscal year 1987, amendment budget authority needs for project-based assistance were greater than those for certificates. For the most part, in the period from 1988 through 1991, this relationship was reversed; certificate amendment budget authority needs were typically \$150 million to \$280 million per year greater than project-based amendment budget authority needs. However, HUD's latest budget justification to the Congress shows that fiscal year 1992 project-based amendment needs have increased to \$1.3 billion, nearly three times the \$485 million needed for amendments to certificate contracts.

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**Figure IV.2: Amendment Budget
Authority Needs for Tenant-Based
Certificate and Project-Based
Programs, Fiscal Years 1983-92**



Source: GAO's analysis of HUD's data.

**Recent Years' Budget
Authority Provided for
Contract Amendments and
Renewals**

In recent years, the relationship between budget authority needs renewals and amendments for the tenant-based certificate program and the project-based loan management program have followed no clearly defined pattern (see table IV.1). As a matter of policy, HUD does not provide amendments for the tenant-based voucher program. The loan management program is the only project-based program that has needed contract renewals prior to fiscal year 1994.

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Budget Authority Needs for Contract
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Uncertain**

**Table IV.1: Budget Authority Provided
for Amendments and Renewals, Fiscal
Years 1990-94**

Dollars in Billions

Fiscal year	Funding for tenant- based certificates		Funding for project-based assistance (loan management program)	
	Amendments	Renewals	Amendments	Renewals
1990	\$0.706	\$0.689	\$0.071	\$0.100
1991	0.776	4.232	0.046	2.985
1992	0.485	4.247	0.079	0.891
1993	0.426	4.559	^a	0.573
1994	0.437	3.592	^a	0.554

^aNot available as of April 1993.

Note: Data from 1990-92 are based on actual reservations of funds, whereas 1993-94 data are HUD estimates.

Source: GAO's analysis of HUD's data.

Amendment needs for the certificate program are expected to decrease from over \$700 million in fiscal years 1990 and 1991 to around \$430 million in fiscal years 1993 and 1994. On the other hand, renewal needs for certificates have increased from \$689 million in fiscal year 1990 to over \$4 billion in the next 3 years and are expected to decrease somewhat to about \$3.6 billion in fiscal year 1994. For the loan management program, estimated amendment budget authority has decreased from \$71 million in fiscal year 1990 to \$46 million in the following year and rising again to \$79 million in fiscal year 1992 (fiscal years 1993-94 amendment needs were not available as of April 1993). Loan management renewal budget authority reached a high point of almost \$3 billion in fiscal year 1991, followed by expected sharp decreases to less than \$600 million in both fiscal years 1993 and 1994.

**Future Amendment
Needs Are Uncertain**

Although HUD officials expect that additional budget authority needed for tenant-based certificate contract amendments and project-based loan management contract amendments will decrease over time, it is unclear whether this expected decrease will outweigh amendment budget authority needs for other project-based assistance contracts. HUD's information systems cannot estimate the extent to which budget authority will be needed for future amendments.

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Budget Authority Needs for Contract
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Uncertain**

**Certificate and Loan
Management Amendment
Needs Expected to
Decrease**

HUD's expectation for the decrease in budget authority needed for certificate and loan management amendments is based on HUD's practice of replacing existing 15-year certificate and loan management contracts with 5-year contracts when they are renewed. In addition, starting in fiscal year 1994, HUD will begin "re-renewing the renewals." That is, HUD will again renew 5-year contracts that were renewed for the first time in fiscal years 1989-93. HUD officials believe that the Department can better estimate contract costs for these shorter-term contracts than it can for longer-term contracts.

HUD budget officials expect that amendment budget authority needs for the certificate and loan management programs will decrease, because over a shorter period HUD can more accurately predict factors that affect cost: tenant income and rental inflation. For example, a 5-year contract that is renewed twice for 5 years (totaling 15 years) will need less amendment budget authority than a 15-year contract will need—given identical patterns in outlays. This fact is illustrated by a comparison in table IV.2 of two hypothetical contracts starting in 1977.

**Table IV.2: Hypothetical Example of
Amendment Needs for 15-Year and
5-Year Contracts**

Fiscal year	Outlays	15-year contract		5-year contract (renewed twice)	
		Contract authority	Amendment funding needed	Contract authority	Amendment funding needed
1977	\$ 100	\$ 100	\$ 0	\$100	\$ 0
1978	100	100	0	100	0
1979	100	100	0	100	0
1980	100	100	0	100	0
1981	100	100	0	100	0
1982	100	100	0	100 ^a	0
1983	100	100	0	100	0
1984	100	100	0	100	0
1985	110	100	10	100	10
1986	110	100	10	100	10
1987	110	100	10	110 ^a	0
1988	110	100	10	110	0
1989	110	100	10	110	0
1990	110	100	10	110	0
1991	110	100	10	110	0
Total	\$1,570	\$1,500	\$70		\$20

^aContract renewed in 1982 and 1987.

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Budget Authority Needs for Contract
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Uncertain**

In this example, if outlays increase in 1985 for both contracts, HUD would be forced to amend both the 5- or 15-year contracts to meet the increased annual costs. For the 5-year contract, amendment funding will cover the 2 years remaining in the contract. For the 15-year contract, amendment funding will cover the remaining 7 years in the contract. Since the 5-year contract will be renewed in 1987, HUD would recognize the larger subsidy costs that occurred in 1985 and fund the renewal at the higher level needed during the renewal process. As a result, renewal budget authority costs increase, but amendment budget authority costs decrease by the same amount.

**Amendment Needs of
Project-Based Assistance
Contracts Are Uncertain**

HUD's information systems are not able to provide data on whether 5-year contracts have been more accurately budgeted for, when compared to 15-year contracts, and would consequently need less amendment budget authority. This information systems problem is caused, in part, by HUD's not collecting data for the tenant-based certificate program that would show (for each certificate contract) whether the contract was underfunded. Instead, HUD collects data that show only whether the local housing agency's entire group of certificate contracts in a consolidated contract is underfunded. While HUD's SURVEY information system produces estimates of future certificate program budget authority amendment needs, HUD's OIG has reported that HUD has had limited ability to estimate future amendment needs.¹

HUD expects that amendment budget authority for loan management contracts will decrease because it has been replacing 15-year contracts with 5-year contracts as these contracts expire. However, HUD officials could not quantify expected future budget-authority amendment needs for the loan management program—or for other project-based assistance programs—because their information systems do not allow them to do so.² For other project-based programs, longer-term estimates of amendment needs may be speculative. Because many contracts have 40-year terms, it would be difficult to reliably estimate amendment needs that may occur so far in the future. However, it is reasonable to expect that long-term project-based contracts could need substantial additional amendment budget authority.

¹Review of HUD's Fiscal Year 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments (92-TS-103-0008, Apr. 21, 1992).

²See also HUD's OIG report, Review of HUD's Fiscal Year 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments (92-TS-103-0008, Apr. 21, 1992).

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Beyond the expected gradual decrease in amendment budget authority needs due to the gradual replacement of longer-term contracts with shorter-term contracts, applying the "no-amendment" policy, as in the section 8 voucher program, to more section 8 contracts would also clearly decrease amendment budget authority needs. However, this policy could have other effects. For example, if a local housing agency's contract subsidy needs were greater than the amount budgeted for, the housing agency might choose to limit the extent of assistance to each household or limit the number of households served.

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