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SECTION 8 RENTAL HOUSING

Merging Assistance Programs Has Benefits but Raises Implementation Issues

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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 (HUD) administers two similar rental housing subsidy programs for lower-income households—the section 8 certificate and voucher programs. These two programs, operated by local and state housing agencies for HUD, assist about 1.3 million lower-income households, enabling them to live in decent, affordable, privately owned housing. While these programs are similar in many respects, several statutory and administrative differences can affect, among other things, the housing subsidy that assisted households receive.

Over the past several years, one of our reports,[1] a HUD Office of Inspector General report, the Vice President's Report of the National Performance Review, and others have supported combining the certificate and voucher programs into one program. More recently, in February and April 1994, alternative bills were introduced to merge the two programs (as parts of H.R 3838 and H.R. 4310). You asked us whether these two programs should be combined. To address this question, we examined (1) the benefits of a merger, (2) the major program differences that would need to be reconciled, (3) the effect of a merger on HUD's budgeting and financial management, and (4) the effort needed to merge the two programs.

Results in Brief

We continue to believe that the certificate and voucher programs should be combined. A single combined program would benefit HUD, housing agencies, private owners, and assisted households. Under a merger, HUD and housing agencies would have one program to administer rather than two, and they would have fewer administrative record-keeping requirements. In addition, private owners would no longer have to meet different requirements for households receiving assistance through different programs. Finally, similar assisted households would be treated

[1] Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20, Feb. 16, 1989).

similarly, both in the housing subsidies they received and in their choice of housing.

Before a total merger could take place, both statutory and nonstatutory differences between the two programs would have to be reconciled. The Congress would have to amend legislation to arrive at a consistent basis for calculating the rental subsidy, among other issues. HUD is currently developing a unified set of program requirements in areas that are not governed by statute.

A merger of the certificate and voucher programs would not, in itself, be likely to improve either the accuracy of HUD's budget estimates to the Congress or the financial management of HUD's programs. Yet such improvements may result, independently of a merger, from current efforts by HUD to improve its information systems and internal controls. HUD is also simplifying program administration by streamlining budgeting and reporting requirements for housing agencies regardless of whether a merger takes place.

Merging the two programs would not be easy. Ultimately, the effort needed would depend on the legislation that the Congress enacted and on the way that HUD implemented this legislation. If a merger took place, housing agencies would have to persuade tens of thousands of housing owners to participate under new program rules. Furthermore, if policymakers decided to let owners and assisted households continue to participate under current contracts and leases, both of which run indefinitely, HUD and housing agencies would have to administer three programs—the certificate program, the voucher program, and a merged program—until all participants entered into agreements reflecting the requirements of a merged program. During such a transitional period, the difficulties involved in operating multiple programs could be exacerbated.

Finally, HUD would need to have an adequate number of appropriately trained and organized staff in place to ensure a smooth merger. HUD has been designated a "high-risk" agency, in part because of concerns about its organizational structure and capability.

Background

HUD's section 8 certificate and voucher programs are designed to allow lower-income households to live in decent and affordable private rental housing of their choice.[2] Under these programs, HUD provides subsidies for the recipients of about 1 million certificates and about 294,000 vouchers. To operate the certificate and voucher programs, HUD enters into fixed-dollar multiyear contracts with local and state housing agencies (e.g., public housing agencies). These agencies, among other things, determine the eligibility of prospective participants, ensure the conformity of occupied units with rent and quality standards, and pay section 8 subsidies to participating owners. If contract funds do not suffice to provide rental subsidies over the life of the contract, HUD provides additional funds (called contract amendments) for certificate—but not for voucher—program contracts.

As a general rule under the certificate program, an assisted household pays 30 percent of its income for rent (called the rent burden). HUD's subsidy makes up the difference between the household's contribution towards rent and the actual rent charged by the owner (called the contract rent). For the most part, the rent charged by the owner may not exceed a "fair market rent" determined by HUD for a unit with a given number of bedrooms in the market area.

Under the voucher program, an assisted household may elect to pay more or less than 30 percent of its adjusted income for rent. HUD's subsidy to the housing owner generally equals the difference between 30 percent of the assisted household's adjusted income and a subsidy benchmark set by the housing agency (called the payment standard).[3] If the assisted household chooses to rent a unit that costs more than the payment standard, its rent burden will exceed 30 percent. Conversely, if it chooses to rent a unit—including the unit that it occupied before receiving voucher assistance—that costs less than the payment standard, its rent burden will be less than 30 percent. The reduction in rent burden that the assisted household can obtain by renting a unit for less than the payment standard is called the shopper's incentive. (See app. I for more detailed information about the certificate and voucher programs.)

[2]Generally, assisted households may use certificates and vouchers to rent from any private owner—in the housing agency's jurisdiction, in the same state, or in a contiguous metropolitan statistical area—whose housing units meet rent and quality standards.

[3]As a general rule, the payment standard must be between 80 and 100 percent of the applicable fair market rent (in effect when the payment standard was adopted).

A Merger Would Improve Program Delivery

Merging the two existing rental assistance programs and operating a single program would improve program delivery but would require efforts by HUD and housing agencies to carry out. Table 1 summarizes these likely results.

Table 1: Summary of Likely Results of Merging the Certificate and Voucher Programs

Issue	Likely result
Program delivery	• Administration would be simplified through the establishment of a single set of requirements for HUD, housing agencies, and housing owners. • Similar assisted households would be treated similarly.
Budgeting and financial management	• Little impact is expected on the accuracy of HUD's annual budget estimates or financial management of programs.
Implementation	• Following the enactment of legislation, HUD must issue rules and educate its staff and housing agencies. • Housing agencies must educate assisted households and owners and gain owners' acceptance of new program requirements. • HUD and housing agencies may have to administer three programs for an indefinite and possibly long time.
Budgetary savings	• No budgetary savings are anticipated.
Organizational structure and capability	• Existing problems with HUD's organizational structure and capability may make merger more difficult.

Under a single program, HUD's central office and field offices would have to administer and enforce one set of program rules rather than two sets and would thus likely be able to deliver program benefits (housing subsidies) more easily once a merger was completed. HUD would also have fewer financial documents to review, process, and record, since it would have fewer contracts with housing agencies. Meanwhile, efforts to reduce the number of such financial documents are under way, apart from merger considerations.

For housing agencies, similar benefits would accrue. Under a single set of program rules and reporting requirements, the agencies would likely have an easier time explaining program requirements to participating housing owners and assisted households. According to officials at housing agencies we visited and several of the comments on HUD's proposed rule to consolidate the two programs, these program differences are confusing to housing owners and assisted households participating in the two programs.

A merger, if properly structured, would also make participation in the section 8 program more attractive to owners. Currently, a housing owner who accepts subsidies for both certificate holders and voucher holders is subject to different requirements for rent increases. For example, as a general rule the certificate program does not allow rents to rise above the fair market rent level, while the voucher program does not have this limitation. A merger should eliminate such differences.

Under a single combined program, similar assisted households would be treated similarly. For example, voucher holders now have a wider choice of housing, since they may elect to rent units that cost more than the payment standard if they pay the difference themselves. These differences would disappear under a merger.

HUD field office and housing agency staff told us that any savings in staff time resulting from combining the two programs would likely be redirected to currently understaffed activities, such as program financial management. The Vice President's Report of the National Performance Review stated that no budgetary savings would result from a merger. We agree. (See app. II.)

Several Program Differences Would Have to Be Resolved Before a Merger Could Take Place

Several differences between the programs stem from differences in the authorizing legislation or program design. These differences would have to be resolved by policymakers if the two programs were to be merged. These involve whether to (1) use the fair market rent or payment standard as the basis for computing housing subsidies, (2) include the shopper's incentive, and (3) allow additional budget authority for contract amendments. These program differences affect the choice of housing, the rent burden, and the number of households that can be assisted under a contract. Little current national information on how program requirements affect assisted households exists for deciding how to merge the two programs.

Should Housing Subsidies Be Based on the Fair Market Rent or the Payment Standard?

HUD uses the most accurate and current data available to develop fair market rent estimates. However, by the time HUD publishes fair market rent estimates, they are not always current, and the metropolitan statistical area for which the fair market rent is set sometimes covers submarkets with disparate rental costs. Because of these problems, published fair market rents, which provide the basis for computing maximum housing subsidies for certificate holders, may be too low or too high. If they are too low, they will limit the housing choices available to certificate holders; if they are too high, they will expand the available housing choices.[4] However, the certificate program allows housing agencies to ask HUD to permit higher rents (called exception rents) if fair market rents are too low.

Advocates of retaining a certificate approach (using fair market rents) point out that households assisted through certificates and vouchers typically are very poor and cannot afford higher rent burdens. For example, a household with an annual gross income of $7,060 would, after paying 30 percent of its adjusted income for rent, have about $440 per month remaining for other necessities.

Alternatively, the use of the payment standard would allow housing agencies to set a subsidy benchmark on the basis of more current information, if obtained, about their local housing markets. Housing agencies may set the payment standard below the fair market rent. However, if the fair market rent accurately reflects housing costs, then setting the payment standard below the fair market rent restricts assisted households' housing choices and creates higher rent burdens. For example, in a hypothetical case developed from representative rent and income data, the use of a payment standard set at 80 percent of the fair market rent increases an assisted household's rent burden from 30 percent of adjusted income to 47 percent, assuming the household rents a unit at the fair market rent (see table II.1). Conversely, housing agencies may assist more households if they set the payment standard below the fair market rent because they can then divide their fixed-dollar contract with HUD among more recipients.

HUD does not collect information on the payment standards maintained by housing agencies. Our limited survey of 23 of the largest housing agencies that administer certificates and vouchers found that payment standards were 10 to 20 percent below fair market rents nearly 60 percent of the

[4]The National Affordable Housing Act of 1990 required that we report on the feasibility of establishing fair market rents for areas that are geographically smaller than current market areas. We expect to issue this report in mid-1994.

time. However, our survey did not address the actual rent burdens or the quality of housing of families assisted by these housing agencies.

HUD's legislative proposal for merging the certificate and voucher programs (introduced as part of H.R. 4310) includes safeguards against excessive rent burdens. For example, under this proposal, housing agencies could adopt a payment standard that, for the most part, did not exceed the fair market rent. The legislative proposal does not set a floor for the payment standard; however, HUD may require a housing agency to submit proposed payment standards for approval. Furthermore, HUD intends to monitor rent burdens and review any payment standard that causes more than 50 percent of the families living in units with a given number of bedrooms to pay more than 30 percent of their adjusted income for rent. HUD could then require housing agencies to modify payment standards on the basis on this information.

Similarly, the merger proposal included in H.R. 3838 contains a safeguard against high rent burdens. H.R. 3838 maintains many of the current certificate program's features, such as the use of fair market rents rather than payment standards, and, if enacted, would prohibit a household from paying more than 30 percent of its adjusted income for rent.

Should the Shopper's Incentive Be Included?

While the voucher program contains a shopper's incentive, the certificate program does not. The Congress expected that the shopper's incentive would constrain rent increases, since assisted households would have a monetary incentive to seek the lowest possible rent: If they could lower their housing costs, they would then have more money available for other uses, such as food, health care, or transportation. However, an assisted household does not have to move to benefit from the shopper's incentive. As long as the household rents a unit—including the unit it occupied before it began to receive assistance—for less than the payment standard, it is entitled to the shopper's incentive.

According to HUD's legislative proposal, the shopper's incentive is costly and, in about one-third of the cases studied, is provided to families who may not have shopped for the best buy and remain in the units that they occupied before they began to participate in the program. Furthermore, the legislative proposal noted that HUD had found no evidence that the shopper's incentive helps to prevent inflation in rents, as intended.

In 1989, we reported that the shopper's incentive in three 1970s-era programs had little impact on mobility.[5] Our report suggested that if the Congress wished to retain the shopper's incentive, it should consider whether to retain it for households renting in place. Neither H.R. 3838 nor H.R. 4310 provides for a shopper's incentive.

Should Budget Authority Be Provided for Contract Amendments?

Finally, policymakers must decide whether to provide budget authority for amendments to contracts with housing agencies if funds for subsidies are insufficient to carry existing contracts to term. Under HUD's current policies, budget authority for contract amendments is provided for the certificate program but not for the voucher program. The budget authority required for amendments for the certificate program has been substantial. According to HUD records, the program will require an estimated average of $566 million in additional budget authority for each of the 5 fiscal years from 1990 through 1994. While costly, the budget authority provided for contract amendments ensures the continuation of housing assistance for lower-income households. The choice for policymakers is whether to place a greater emphasis on assisting a certain number of lower-income households or on constraining the need for new budget authority.

As existing 15-year contracts with housing agencies come up for renewal, HUD has been replacing them with 5-year contracts. HUD officials believe that they can better estimate subsidy costs for the shorter term. They told us that HUD does not expect to have to provide budget authority for contract amendments as long as inflation remains low and the incomes of assisted households remain stable. These conditions are, of course, beyond HUD's control. (See app. II.)

A Merger Alone Would Not Do Much to Improve HUD's Budgeting and Financial Management

A merger of the certificate and voucher programs would not, in itself, be likely to improve the accuracy of HUD's annual budget estimates to the Congress or the financial management of HUD's programs. Rather, ongoing efforts by HUD to develop better information systems and internal controls, if effectively implemented, will likely produce such improvements, whether or not the two programs are merged.

[5]The three programs were the new leased housing program, a rent reduction credit in the certificate program, and the experimental housing allowance program.

Problems Stem From Inadequate Systems

HUD has not provided the Congress with accurate budget estimates for contract renewals and contract amendments because its information systems (1) have not been able to accurately identify the contracts that need to be renewed or to receive budget authority for contract amendments in any one year and (2) do not contain the information necessary to accurately estimate budget authority needs for such contract renewals and amendments. For example, HUD's long-range (5-year) estimates for contract renewals have differed from actual (or current estimated) renewal needs by an average of 10,000 to 20,000 units for 4 of the latest 6 fiscal years. These problems are well known and have been reported by the Congress, HUD's Office of Inspector General, and us.[6]

HUD has long regarded the financial management of its section 8 programs as problematic. Since 1983, it has reported its section 8 accounting systems as a material weakness under the Federal Managers Financial Integrity Act. Problems include inaccurate payment of subsidies, admission of ineligible households, and inadequate systems, written guidance, and accountability.

HUD Is Acting to Improve Its Budgeting and Financial Management Systems

HUD has acted to correct the weaknesses in its budgeting and accounting systems. These actions are independent of—and not conditional on—a merger of the certificate and voucher programs. For example, HUD has begun to implement a multiyear plan to improve its information systems. In August 1993, HUD approved its Section 8 Systems Project Implementation Plan, which is designed to improve its ability to forecast budget needs. Other project goals include improving the (1) processes for allocating and controlling funds; (2) accessibility, timeliness, and quality of management information; and (3) ability to monitor housing agencies' activities. This project is part of a long-term effort to improve systems begun in 1988. According to HUD, it has completed collecting, loading, and quality assurance checks on data from its approximately 30,000 section 8 contracts with housing agencies.

Although a merger would reduce some paperwork, it would not correct inadequate management information systems and poor quality data. We believe that actions to improve HUD's information systems, if properly carried out and maintained over time, will do more to improve HUD's budgeting and financial management than merging the certificate and voucher programs. (See app. III.)

[6] See app. III for report citations.

A Merger Would Probably Entail Substantial Efforts for HUD and Housing Agencies

The primary drawback to merging the certificate and voucher programs would likely be the effort needed to carry out the merger. HUD's choice of a strategy for implementing a statutory merger would necessarily follow the enactment of a statute laying out the requirements for merging the certificate and voucher programs. Since such a statute has not been enacted, HUD has not developed a strategy. But no matter what form any newly enacted program might take, we believe that HUD would have to work with housing agencies to persuade housing owners to accept that new program's rules. We further believe that HUD would have to ensure the adequacy of its organization to carry out a merger.

To establish a single unified program, HUD and housing agencies would need to persuade tens of thousands of housing owners to execute new housing assistance contracts that conform to new program rules. Current contracts, run indefinitely and are based on the current program rules. An unknown number of owners might choose to continue renting to assisted households under the terms of the current leases. These leases also run indefinitely. HUD and housing agencies would then probably be managing three programs. According to HUD field office and housing agency officials, running three programs would likely exacerbate the inefficiencies of running two similar rental assistance programs.

If HUD attempted to force owners to accept new rules, some owners might opt out of the program, forcing their tenants to find new units. HUD program officials were unable to tell us how this issue would be addressed because a statute to merge the two programs has not been enacted. The Director of HUD's Rental Assistance Division told us that HUD would consult with representatives of housing agencies, housing owners, and assisted households before implementing a transition to a merged program.

HUD's organizational structure has been criticized for fragmentation, lack of accountability, and overlapping authority. Consequently, HUD has been designated a high-risk agency by the Office of Management and Budget and by us. Because a merger would likely require considerable effort by HUD headquarters and the many HUD field offices, policymakers would need to ensure that HUD's staffing was appropriate and was organized so that a merger could be successfully carried out. In December 1993, the Secretary of HUD announced a reorganization to correct organizational problems but stated that neither an implementation strategy nor a timetable had been developed. (See app. IV.)

Observations

We continue to support the concept of a unified certificate and voucher program. Since few data exist for measuring the effects of program requirements on assisted households nationwide, we are not in a position to comment on which program features should be adopted. In the absence of such information, philosophical judgments will probably drive decisions on how to merge the two programs.

A merger would impose transitional burdens on HUD and housing agencies. Given that a merger could cause HUD to divert its attention from other—possibly higher-priority—issues, policymakers would need to ensure, before a statutory merger took place, that HUD had the capability to complete the merger with little or no adverse impact on its section 8 program or on other agency activities.

Agency Comments

To obtain HUD's comments on this report, we discussed a draft with the Director of the Policy and Procedures Branch in HUD's Rental Assistance Division. In providing comments for the agency, she generally agreed with the contents of our draft report but asked that we clarify our discussion of why HUD might have to run three separate rental assistance programs for an indefinite time. We made this change. We also made a number of other suggested technical and clarifying changes, where appropriate. We did not obtain written agency comments.

Information on how we conducted our review is contained in appendix V. We performed our review in accordance with generally accepted government auditing standards from October 1992 to March 1994.

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 VI.

Sincerely yours,

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

Contents

Abbreviations

FMR	fair market rent
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 certificate and voucher rental assistance programs provide housing subsidies for about 1.3 million lower-income households. Both of these programs provide subsidies for assisted households to live in the private rental housing of their choice and have similar income eligibility criteria. However, the programs differ in several important ways, such as in the standard for setting the housing subsidy that assisted households receive.

Several reports and recent legislative proposals have called for merging these two similar programs. Also, in February 1993, HUD issued proposed rules that would administratively consolidate those aspects of the two programs that do not differ statutorily.

The Certificate and Voucher Programs Provide 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 decent, safe, and affordable housing for lower-income households.[1] About 1 million households receive certificate assistance and about 294,000 households receive voucher assistance. Both programs rely on assisted households' finding privately owned rental housing that meets HUD's rent and quality standards. Assisted households pay a portion of their income towards rent, and the federal government pays a subsidy to the housing owner that makes up the difference between the market rent for the unit and the household's contribution towards rent.

According to HUD, it has entered into about 30,000 multiyear contracts with over 2,500 state and local housing agencies (e.g., public housing agencies) to operate these programs. Housing agencies determine households' eligibility, select households to receive subsidies, contract with owners whose housing units have been selected by families, determine that units meet rent and housing quality standards,[2] and pay rental subsidies to these owners. The principal differences between the two programs are in the (1) basis for calculating the housing subsidy, (2) method for calculating the subsidy, (3) presence of the "shopper's incentive" in the voucher program but not in the certificate program, (4) resulting rent burden, and

[1]To be eligible for either program, a household may generally receive no more than 50 percent of the median income for the area.

[2]Units are acceptable if they meet HUD's quality standards and have rents reasonable in comparison with rents for similar units in a given community. Housing agencies are required to verify these conditions.

(5) HUD policy of providing additional budget authority[3] when additional funds are needed to pay subsidies over the remaining life of the contract in the certificate program but not the voucher program. (See table I.1.)

Table I.1: Major Differences Between the Certificate and Voucher Programs

Feature	Certificate program	Voucher program
Basis for subsidy	HUD annually sets fair market rents (FMR) to represent the cost of modest rental units of given sizes. The FMR is generally the maximum rent level allowed when a unit initially comes under contract. HUD may allow a higher rent level (called an "exception rent"). After the first year, the contract rent is adjusted annually using the HUD annual adjustment factor.	Housing agencies base payment standards on FMRs in effect when the standards are adopted. The payment standard may be between 80 and 100 percent of the FMR (or exception rent) in effect when the standard is adopted. A housing agency, at its discretion, may annually increase the amount of the payment standard.
Method of computing subsidy	Thirty percent of the household's income is subtracted from the rent charged by the owner, which may not initially exceed the FMR (or exception rent).	Thirty percent of the household's income is subtracted from the established payment standard.
Presence of shopper's incentive	A shopper's incentive is not included.	The shopper's incentive allows a household to pay less than 30 percent of its income for rent if it rents a unit for less than the payment standard.
Rent burden	An assisted household generally pays 30 percent of its income for rent.	An assisted household may pay more or less than 30 percent of its income for rent, depending on its housing choice and the payment standard.
Amendment funding	Budget authority is provided if subsidy needs are greater than originally anticipated.	No budget authority is provided.

Other differences between the two programs stem from HUD's rules, such as differences in security deposit requirements and in procedures for housing owners to claim unpaid rent and damages.

Fair Market Rents and Payment Standards Guide Subsidy Determinations

The certificate and voucher programs use different bases for determining subsidies—fair market rents (FMR) and payment standards, respectively. Under law, the certificate program's subsidy equals the difference between

[3]Budget authority is authority provided by law to enter into financial obligations that will result in immediate or future outlays of federal funds.

30 percent of a household's adjusted income and the contract rent for the unit that the household wants to lease. For the most part, the initial contract rent may not exceed the FMR for a unit of a similar size in the area.[4] HUD establishes FMRs for each metropolitan and nonmetropolitan area in a state. FMRs reflect rents at the 45th percentile for a given number of bedrooms. HUD updates FMRs annually, using decennial Census information, supplemented by American Housing Survey and more current telephone survey data.

Under the voucher program, the federal subsidy equals the difference between 30 percent of an assisted household's adjusted income and a payment standard established by a housing agency. Under law, the payment standard is "based on" the published section 8 FMR and is established by the housing agency for its market area. Under HUD's rules, the payment standard may not be less than 80 percent of the FMR (in effect when the payment standard is adopted) for a unit of a given size and may not be more than the effective FMR or the HUD-approved communitywide exception rent (in effect when the payment standard is adopted) for a unit of that size. At their discretion, housing agencies may annually increase the amount of the payment standard so that assisted households can continue to afford assisted housing under the program.

Households assisted through vouchers may lease units that cost more than the payment standard if they pay the difference themselves. As a result, they may pay more than 30 percent of their adjusted income for rent. They may also pay less than 30 percent of their adjusted income for rent if they take advantage of the statutorily-based "shopper's incentive" feature.[5] This feature allows an assisted household to contribute less than 30 percent of its adjusted income if it successfully "shops for" an acceptable unit renting for less than the payment standard. The Congress expected that the shopper's incentive would constrain rent increases by housing owners, since assisted families would have a monetary incentive to obtain the most favorable rent. This feature is not present in the certificate program.

[4]Housing agencies may approve, on a unit-by unit basis, initial gross rents that exceed the FMR by up to 10 percent. In addition, HUD may allow maximum gross rents of up to 20 percent above the applicable FMR for all units of a given size or type within a designated locality. After the first year of the housing assistance contract/lease, rents are adjusted using an annual adjustment factor published by HUD. Adjusted rents are not subject to the FMR limitation but must be certified by the housing agency as reasonable.

[5]At a minimum, a family must pay 10 percent of its gross income.

The Congress Provides Budget Authority, and HUD Accounts for Funds

The Congress provides budget authority at one time to cover the expected aggregated subsidy costs for new certificate and voucher contracts and for those contracts expected to be renewed in the budget year. Before fiscal year 1989, most contracts were for 15 years. Since fiscal year 1989, new and renewed contracts have been written for 5 years. 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. Currently, HUD's policy is to renew each expiring contract.
- Contract amendments result when budget authority for ongoing certificate contracts is not sufficient to cover costs because HUD's subsidy costs are higher than HUD projected when it budgeted for the cost of the contract. HUD's policy is not to provide budget authority for contract amendments for the voucher program.

For its annual budget estimates, HUD uses its Control Files Subsystem data and per-unit cost estimates. The Control Files Subsystem is used to identify expiring contracts and the number of units in these contracts; the per-unit cost estimates are developed from data provided by HUD's Policy Development and Research office and field offices. The subsidy requirements are calculated for the households assisted under each contract. This process includes calculating a formula-derived administrative fee for the housing agency and making adjustments for inflation.

To submit periodic budget-related certificate and voucher program documents to HUD, housing agencies may have to prepare, and local HUD offices must review and approve, several budget and accounting documents. Housing agencies submit proposed certificate program budgets, which include information on the number of households estimated to be served, the distribution of units by the number of bedrooms, and the tenant's average portion of rent. Voucher program budgets require generally the same information.

For both programs, housing agencies submit quarterly fund requisitions and annual reconciliation documents to HUD field offices for approval. This information is aggregated in the HUD regional office accounting divisions, which approve and disburse payments to housing agencies and account for program expenditures.

A Merger Has Often Been Called for but Is Not Yet a Reality

GAO, HUD, interest groups, and the Vice President, in the Report of the National Performance Review, have all advocated merging the section 8 certificate and voucher programs.[6] In 1989, we suggested that the Congress consider operating just one section 8 rental assistance program. In 1990, HUD's Office of Inspector General recommended that HUD develop a long-range plan to combine the best features of the certificate and voucher programs. Furthermore, interested parties—including the National Leased Housing Association, the Council of Large Public Housing Authorities, and the National Association of Housing and Redevelopment Officials—support merging the two programs. The Vice President's Report of the National Performance Review also recommended such a merger. The Vice President's report did not contemplate any budget savings from this merger. Finally, legislative proposals that would merge the programs (as parts of H.R. 3838 and H.R. 4310) were introduced in February and April 1994, respectively.

On February 24, 1993, HUD issued proposed rules (58 FR 11292) that would conform the certificate and voucher program in areas that do not differ by statute. HUD has received nearly 400 comments on the proposed rules. It is reviewing these comments and has set a goal to issue final rules by July 1994. HUD plans to incorporate any statutory changes that are made before the final rules are issued.

[6] Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20, Feb. 16, 1989); HUD Office of Inspector General Memorandum Report, Survey of HUD's Efforts to Properly Account and Budget for Section 8 Funds (90-TS-103-0010, Apr. 24, 1990); and Report of the National Performance Review, Creating a Government That Works Better & Costs Less (1993).

A Merger Requires the Resolution of Several Program Differences

Administering similar but separate certificate and voucher rental assistance programs has been troublesome, according to housing agencies we visited and concerned interest groups. Applicants and households assisted through one program sometimes complain that they are treated differently from neighbors who are assisted through the other program. Similarly, housing owners renting to both certificate and voucher tenants must comply with two sets of program rules. Finally, housing agency staff must be aware of differing rules, explain these differing rules to assisted households and participating owners, and monitor compliance with and keep separate records for each program.

If the two programs are to be merged, statutory differences involving (1) the basis on which the subsidy is computed and (2) the shopper's incentive must be resolved. A related program design issue that remains to be addressed but is not set out in authorizing statutes is whether to provide additional budget authority for existing section 8 certificate contracts that prematurely run out of funds when subsidy costs are unexpectedly high.

A Policy Is Needed on Whether to Use the Fair Market Rent or the Payment Standard Approach

If the certificate and voucher programs are merged, congressional decisionmakers will need to select the rental housing cost base on which the subsidies for the merged program will be calculated. Currently, the certificate and the voucher program each uses a different basis—the fair market rent (FMR) and the payment standard, respectively. The use of a different basis affects affordability and housing choice.

Detailed but Limited Data Drive FMR Determinations

HUD establishes FMRs for all metropolitan and nonmetropolitan counties in the United States. FMRs reflect rents at the 45th percentile for units with a given number of bedrooms. HUD uses decennial Census information, supplemented by more current data from the American Housing Survey, the Consumer Price Index, and telephone surveys, to update FMRs annually. HUD's Office of Inspector General has reported that HUD's procedures for computing FMRs are basically sound but could be enhanced if they were more timely and if they incorporated more information about specific local markets.[1]

[1]Audit of HUD's System for Establishing Section 8 Fair Market Rents and Approving Fair Market Rent Exceptions (89-TS-103-0009, Sept. 26, 1989). Our report entitled Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (RCED-89-20, Feb. 16, 1989) also discussed the need for more current and accurate FMRs.

FMRS are not always timely because they are derived from sources that rapidly become dated. Census data are compiled only every 10 years and can be years out of date before they become available to HUD. In addition, the nationwide American Housing Survey is conducted every 2 years, and individual surveys of 44 metropolitan areas are conducted once every 3 to 4 years. The time lag in both the Census and the American Housing Survey data makes it necessary for HUD to update the data with available Consumer Price Index data. However, the price inflation data provided by the Consumer Price Index can be about a year old when HUD publishes FMRS. Although HUD attempts to compensate for time lags through adjustments to the index for many metropolitan areas, the age of the data inhibits FMR estimates from reflecting current rent levels.

HUD's data are also limited because they are not geographically specific. For example, the American Housing Survey covers only 44 of over 2,700 metropolitan areas, while the Consumer Price Index's area-specific survey data reflect changes in rent levels for only 74 metropolitan areas. For the remainder of the country, all that is available is one Consumer Price Index factor for each of the four Census regions. Census regions are so large, however—each covers about one-fourth of the country—that a single factor for each region may miss or obscure changes in individual rental markets within these regions.

As a result, the amount of rental housing available at the 45th percentile in a metropolitan statistical area varies in each of the counties that constitute the metropolitan statistical area. When the range of rents in a metropolitan area is wide, the percentage of housing available at the FMR varies greatly from county to county. For example, rent for two-bedroom units at the 45th percentile in the counties of the Washington, D.C., metropolitan area[2] vary by as much as $300. Thus, the 45th percentile rent of $679 gives assisted households in Montgomery County, Maryland, access to only 35 percent of the available two-bedroom rental housing stock rather than 45 percent. In contrast, the same $679 rent gives assisted households access to 81 percent of the available two-bedroom rental housing in Stafford County, Virginia. Conversely, rents vary little in the Seattle, Washington, metropolitan statistical area.[3] There, county rents vary by only $19 from the Seattle rents, and the FMR generally opens up 45 percent

[2]When this analysis was conducted in 1991, the counties or county equivalents of the Washington, D.C., metropolitan area included the District of Columbia, five Maryland counties (Calvert, Charles, Frederick, Montgomery, and Prince Georges), and five Virginia counties (Arlington, Fairfax, Loudoun, Prince William, and Stafford).

[3]This area is composed of the city of Seattle and the counties of King and Snohomish.

of the available two-bedroom rental housing stock to all assisted households.

HUD has attempted to improve the timeliness and geographic specificity of its FMR data by conducting a number of regional and area-specific telephone surveys of FMR market areas. HUD's efforts to provide more timely and geographically specific information for use in setting FMRs will be discussed in more detail in our forthcoming report on the feasibility and effects of establishing FMRs for areas that are geographically smaller than current market areas. We expect to issue this report, which is required by the National Affordable Housing Act of 1990, by mid-1994.

Use of Payment Standards Allows Housing Agencies to Trade Off Subsidy Levels Against Number of Households Assisted

Under housing law, the payment standard for the voucher program is "based on" the HUD-established FMR. Under HUD's rules, the initial payment standard is to be established by the housing agency for its market area and cannot be less than 80 percent of the FMR (in effect when the payment standard is adopted) for a unit of a given size. The payment standard may not be more than the effective FMR or the HUD-approved communitywide exception rent (in effect when the payment standard is adopted) for a unit of that size. HUD's guidance indicates that adjustments to the payment standard may be necessary to ensure that families can continue to afford to lease units under the housing voucher program.

The use of the payment standard allows a housing agency to apply its knowledge of current local rental costs within its jurisdiction to maintain subsidies that allow assisted households to rent decent, affordable housing. If the FMR is too high for a jurisdiction within the FMR area or for a rental unit of a certain size, a housing agency's action to set the payment standard below the FMR, if conscientiously and accurately performed, may save subsidy dollars to use to help other households.

However, setting a payment standard below the FMR—especially when the FMR is an accurate measure of rental costs in the jurisdiction—increases an assisted household's rent burden. This relationship is illustrated by a hypothetical example in which we assume that (1) the FMR reflects the actual cost of renting a unit of a specific size in an area and (2) two households, one with a certificate and one with a voucher, have identical monthly adjusted income (see table II.1).

Table: II.1: Comparison of Hypothetical Rent Burdens Under FMR and Varying Payment Standards

	Certificate holder renting at the FMR	Voucher holder renting when the payment standard is equal to the FMR	90 percent of the FMR	80 percent of the FMR
Monthly adjusted income[a]	$494	$494	$494	$494
30 percent of adjusted income	$148	$148	$148	$148
Rent paid[b]	$418	$418	$418	$418
Federal subsidy[c]	$270	$270	$228	$186
Tenant payment	$148	$148	$190	$232
Rent burden	30%	30%	38%	47%

[a]Annual median gross income was $7,060 for certificate and voucher holders, according to HUD's March 1992 report. Our 1990 report found that adjusted income for about 5,000 certificate holders was 84 percent of gross income. Monthly adjusted income in this example is, then, $7,060 x 0.84 ÷ 12 = $494.

[b]We assume that the FMR is an accurate indicator of rental costs and that the assisted household rents a unit at the FMR level. We also assume that the total rent to the owner is equal to the 1989 median rent for all renters, as reported by HUD in March 1992.

[c]Equals FMR or payment standard amount less 30 percent of adjusted income.

Source: GAO analysis of information from HUD's March 1992 report, Characteristics of HUD-Assisted Renters and Their Units in 1989, and our June 19, 1990, report, Assisted Housing: Rent Burdens in Public Housing and Section 8 Housing Programs (GAO/RCED-90-129).

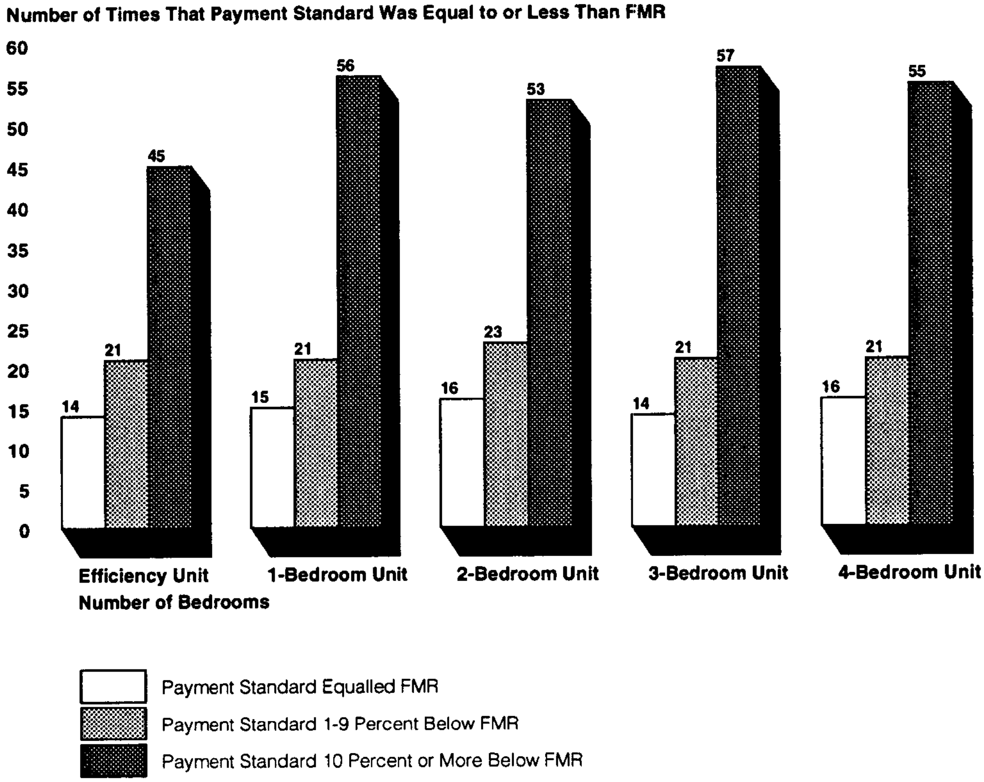
Table II.1 shows that when the housing agency sets the payment standard at the FMR (and the household rents a unit for that amount), our hypothetical household's rent burden is 30 percent, the same as for a household with a certificate. But if the housing agency sets the payment standard at 90 percent of the FMR—either because it believes the FMR is too high or because it does not raise the standard when the FMR increases—a household with a voucher receives a lower subsidy and incurs a 38-percent rent burden. Similarly, if the housing agency sets the payment standard at 80 percent of the FMR and the assisted household with a voucher actually rents a unit at the FMR, then the household's rent burden rises to 47 percent. In subsequent years, if the FMR increases and the housing agency chooses not to increase the payment standard, then the rent burden for the household with a voucher would rise further (other assumptions remaining the same as above).

A housing agency may consciously decide to keep the payment standard lower than the FMR so that, by providing a smaller subsidy to each household assisted through a voucher, it can help more households than it would be able to if it raised the payment standard to the FMR under its fixed dollar contract with HUD. In Norwalk, California, for example, the housing agency decided to raise the average rent burden in order to assist more households. In commenting on the rule that HUD proposed in February 1993 to conform nonstatutory requirements for the certificate and voucher programs, the Norwalk housing agency noted that the voucher holders they assist have rent burdens averaging 35 percent, as compared with 30 percent for certificate holders. According to the agency,

> "This may be due to the fact that the payment standard is currently less than the latest FMR. The payment standard could be increased to the current FMR to make the Voucher program more equitable, while still giving the tenants individual freedom of choice."

HUD does not collect information on payment standards set by housing agencies issuing vouchers. We obtained information on payment standards from 23 housing agencies administering about 5,000 or more certificates and vouchers (see fig. II.1). We asked these agencies to indicate what payment standards they had in effect on March 1 for each year from 1990 through 1993. By this date each year, housing agencies had about 5 months after HUD had published its FMRs in the Federal Register to decide whether they wanted to change their payment standard. We asked for payment standard data for 4 years to minimize the possibility that the payment standard for any one year might have been atypical.

Figure II.1: Comparison of Payment Standards With FMRs at 23 Public Housing Agencies, 1990-93



Note: Three housing agencies did not report payment standards for efficiency units.

As figure II.1 shows, payment standards equalled FMRs only about one-sixth of the time. About 24 percent of the time, these agencies set payment standards 1 to 9 percent below FMRs, and about 59 percent of the time they set payment standards 10 to 20 percent below FMRs. The results are consistent for units of different sizes. Additionally, this analysis uses the annual FMRs published in the Federal Register. Some housing agencies may have been authorized by HUD to set exception rents in the certificate program up to 20 percent above the FMRs for units of a given size or type within a specific neighborhood. In such cases, the percent difference between the approved certificate rent limits and the payment standards would be greater than we have shown. Our limited survey did not assess household rent burdens or the quality of the units occupied.

The Administration and the Congress Have Recently Proposed a Merged Program

HUD's legislative proposal (introduced as part of H.R. 4310) for a merged certificate-voucher program follows a payment standard approach with some modification. Under this proposal, housing agencies would be able to adopt a payment standard that did not exceed the FMR except when HUD determined that an exception rent was appropriate. The legislative proposal does not set a floor for the payment standard; however, HUD may require that housing agencies submit proposed payment standards for approval.

Under the legislative proposal, when the contract rent did not exceed the payment standard, the assistance payment would be the difference between the contract rent and the household's share of the rent. As under current law, the assisted household would pay the highest of 30 percent of adjusted income, 10 percent of gross income, or the welfare rent subsidy. When the rent exceeded the payment standard, the assistance payment would be the difference between the payment standard and the household's share of the rent. Thus, the household would be responsible for paying any amount by which the rent exceeded the payment standard. However, the rent burden could not exceed 40 percent of the household's adjusted income when the household initially received assistance in its first unit under the program and whenever it moved to another unit.

In contrast to the administration's proposal, H.R. 3838 envisions an approach for a merged program that resembles the current certificate program's. This legislation would maintain many of the certificate program's requirements, such as the establishment of FMRs and the annual adjustment of such rents. Households under this proposed program would not pay more than 30 percent of their adjusted gross income for rent.

HUD's Proposed Rule Preserves Trade-Offs Between Affordability and Number of Households Assisted

The rule that HUD proposed in February 1993 to conform nonstatutory requirements for the certificate and voucher programs preserves, with some modification, the voucher program's trade-off between affordability and the number of families assisted. Under HUD's proposed rule (58 FR 11313 and 11351), the current 80-percent floor for the voucher payment standard (when adopted) would be removed, and no minimum would be specified. According to HUD's proposed rule, housing agencies are to strike a "... balance between enhancing affordability for assisted families, and assisting more families with available funds." As with the administration's proposal, removing the floor on the payment standard could result in higher rent burdens for some assisted households. HUD's proposed rule contains a 50-percent cap on rent burdens but does not contain the provisions for approving payment standards contained in the administration's proposal.[4]

Only the Current Voucher Program Includes a Shopper's Incentive

For the most part, households assisted through certificates are required to pay 30 percent of their adjusted household income towards rent. However, the voucher program has a "shopper's incentive" that allows assisted households to contribute less than 30 percent of their income if they successfully "shop for" an acceptable unit (including the unit that they are occupying when they apply for housing assistance) that rents for less than the payment standard. (When an assisted household continues to rent the unit that it occupied when it applied for housing assistance, it is said to be renting in place). Any proposal to merge the certificate and voucher programs would need to consider whether to retain the shopper's incentive.

The Congress expected that the shopper's incentive would constrain rent increases by housing owners, since families would have a monetary incentive to obtain the most favorable rent. The shopper's incentive is a consumer-driven approach that allows assisted households to decide how much of their income they wish to spend for housing and how much to spend for other things. Given the typically low income of this population (median income of about $7,060 in 1989), the shopper's incentive can play a role in maintaining or enhancing the household's financial viability.

Those who do not favor the shopper's incentive state that it has not worked because many households do not shop for less expensive housing but rather rent in place. Thus, these households receive the benefit of the shopper's incentive without changing their behavior. If, for households that rented in place, a certificate subsidy approach were used, dollars subsidizing the shopper's incentive could be used to assist other eligible households.

Neither HUD's legislative proposal nor H.R. 3838 contains a shopper's incentive provision. According to HUD's legislative proposal, the shopper's incentive is costly and, in about one-third of the cases studied, is provided to families who do not necessarily shop for the best buy and who use the assistance to rent in place. Furthermore, according to HUD, there is no evidence that the shopper's incentive helps to prevent inflation in rents, as intended.

[4]The proposed rule would also implement a 1990 statutory provision allowing some families participating in the certificate program to lease units renting above the FMR/exception rent limits while paying more than 30 percent of their income for rent, with limitations.

In a prior review of the section 8 program,[5] we reported that the shopper's incentive had little impact on mobility in three 1970s-era programs—a new leased housing program, an experimental housing allowance program, and a rent reduction credit in the certificate program. We noted that past studies of rental subsidy programs had shown that many households choose to rent in place because they have ties to families, friends, and neighborhoods and that a shopper's incentive has produced little if any influence over housing choices. Our report suggested that if the Congress wished to retain the shopper's incentive, it should consider whether to retain it for households renting in place.

Policymakers Have Several Options

To create a statutory merger of the certificate and voucher programs, the Congress has several options. First, it could adopt the current voucher program's shopper's incentive for the merged program. Under another option, it could do away with the shopper's incentive entirely and adopt the certificate program's approach. If the Congress wished to retain but modify the shopper's incentive, it could limit the incentive to only those who do not rent in place.

A Merger Decision Will Need to Specify Whether Amendment Funding Will Be Continued

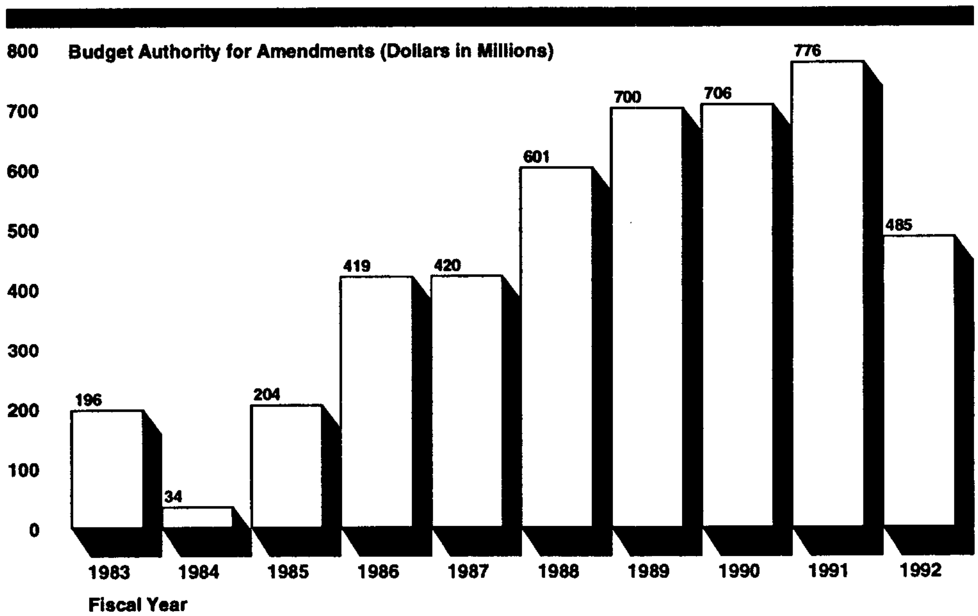
For the certificate program, HUD requests amendment budget authority from the Congress when its remaining budget authority is insufficient to fund the program's contracts to term. This shortfall may occur because rents increased more than expected, household income was lower than expected, or both. Providing budget authority for contract amendments helps ensure that the number of lower-income households that were expected to be assisted under the contract continue to receive rental housing assistance. For the voucher program, HUD does not provide budget authority for contract amendments. When HUD's budget authority is insufficient to fund these contracts to term, housing agencies must reduce the number of households being assisted.

These different policies originate from differences in the design of HUD's programs rather than from differences in the legislation authorizing the certificate and voucher programs. Nonetheless, a merger of the two programs would require the selection of either the certificate program's or the voucher program's budgeting practices or of a hybrid approach (allowing amendment funding for a subset of all contracts).

[5] Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20, Feb. 16, 1989).

Budget authority needs for certificate contract amendments have been substantial. In 4 of the last 5 years for which HUD data were available (fiscal years 1988-92), such budget authority needs have exceeded $600 million per year (see fig. II.2).[6] However, HUD believes that the need for budget authority for amendments will decrease substantially as it replaces existing longer-term (15-year) contracts with shorter-term (5-year) contracts when the longer-term contracts expire. HUD officials expect that, compared with 15-year contracts, 5-year contracts will need little or no amendment funding because HUD can estimate subsidy needs better over a shorter than over a longer period.[7]

Figure II.2: Amendment Budget Authority Needs for the Certificate Program, Fiscal Years 1983-92



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

HUD officials told us that HUD has not had to provide amendment budget authority for any 5-year certificate contracts except to correct administrative errors. If the current low inflation rates continue and the

[6]All dollar amounts are expressed in terms of current dollars. In this case, we believe current dollar amounts are more relevant to congressional budgeting decisions than constant dollars amounts.

[7]For a further discussion of amendment funding, see Assisted Housing: Evening Out the Growth of the Section 8 Program's Funding Needs (GAO/RCED-93-54, Aug. 5, 1993).

incomes of assisted households do not drop, HUD officials do not expect to need amendment budget authority for 5-year contracts. However, as discussed above, HUD's information systems have not been able to produce reliable estimates of future amendment needs. Also, even though economic forecasts predict modest rates of inflation and income growth for the next few years, future economic conditions could be less favorable than current conditions.

A Program Merger Alone Is Likely to Have Limited Impact on Budgeting and Financial Management

For its section 8 programs, HUD has long had difficulty determining annual budget needs and accounting accurately for funds. HUD is currently developing new section 8 information systems and internal control procedures. If effectively implemented, such efforts may provide more accurate budget estimates and accounting for section 8 program funds. These opportunities exist whether or not the certificate and voucher programs are merged.

HUD Has Had Long-Standing Problems in Providing Accurate Budget Estimates to the Congress

HUD's difficulties in providing accurate estimates of budget authority needs for contract renewals and contract amendments are long-standing and 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.[1] These difficulties have occurred because HUD's information systems have not contained all the information needed to accurately estimate budget authority needs and have contained inaccurate information. As a result, HUD has had to ask its field offices to retrieve the needed information manually from their files, but even these manual reviews have not produced accurate results.

Inaccuracies in the estimates produced by these systems have been substantial—representing hundreds of millions of dollars. For example, the HUD OIG's 1992 report stated that HUD had lowered its fiscal year 1993 estimate of amendment budget authority needs for the certificate program 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 the 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 believed to be a more reliable $400 million estimate.

[1]See two Senate appropriations subcommittee reports for HUD (Senate Rep. 101-128, Sept. 13, 1989; and 102-107, July 11, 1991); two GAO letters to the Chair, Subcommittee on VA, HUD and Independent Agencies, Senate Committee on Appropriations (Feb. 4, 1992, and May 12, 1992); our report entitled Assisted Housing: Evening Out the Growth of the Section 8 Program's Funding Needs, (GAO/RCED-93-54, Aug. 5, 1993); 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 a HUD-OMB joint SWAT team report entitled Final Report on Management of Section 8 Housing Assistance Programs (Nov. 6, 1991).

HUD's Financial Management Systems Do Not Have Adequate Controls and Are Burdensome Locally

The financial management systems and internal controls for HUD's certificate and voucher programs have been criticized for allowing the payment of inaccurate rental subsidies to assisted households and the admission of ineligible households into the program.[2] According to HUD studies and our reports, internal control weaknesses prevented HUD from ensuring the appropriateness of the subsidies it paid and the eligibility of the tenants it admitted to these programs. Housing agency staff often did not receive accurate or complete information about applicants' income. Furthermore, housing agencies often made arithmetical errors in calculating subsidies. Excessive subsidies also occurred because some landlords received inappropriate reimbursements for special claims for unpaid rent, damages, and vacancy losses. These overpayments, based on housing agency data and made by HUD, were not promptly detected or collected.

On the local level, HUD's financial management[3] policy often requires housing agency staff to prepare and HUD field office staff to review large volumes of budgetary paperwork. Such time-consuming efforts are required because (1) housing agencies with numerous certificate renewal contracts must submit separate budget documents for each increment (while being permitted to combine such submissions on ongoing certificate and voucher increments) and (2) both HUD field offices and housing agencies must maintain similar—but separate—records.

Housing agency staff told us that maintaining two sets of files to support the preparation of two separate budgets required significant staff time that could better be spent on other financial management activities. According to HUD, the time currently required for field office and housing agency personnel to perform manual tasks leaves little time for other important activities, such as site visits to housing agencies and other monitoring of housing agencies' activities. To date, such labor-intensive activities have been neglected because of insufficient resources, according to HUD field office staff we contacted.

[2]HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994), HUD Reforms: Progress Made Since the HUD Scandals but Much Work Remains (GAO/RCED-92-46, Jan. 31, 1992), and Urban Poor: Tenant Income Misreporting Deprives Other Families of HUD-Subsidized Housing (GAO/HRD 92-60, July 17, 1992).

[3]We define financial management as the procedure by which HUD processes and maintains a housing agency's annual budget, disburses payments to the agency, reconciles any payment discrepancies, and maintains a record of all accounting transactions.

financial record for any merged program. As previously explained, HUD's information systems contain inaccurate and conflicting information and are the subject of a major HUD effort to remedy. According to the Director of HUD's Rental Assistance Division, HUD has recently established automated and centralized data on unobligated budget authority balances. By late spring 1994, HUD field offices should finish reconciling these balances with their hard copy files. Reconciling conflicts in existing data bases is crucial if HUD is to accurately capture the contractual obligations that form the basis for its annual budget.

Merging two programs would not correct budgeting and financial management problems such as HUD identified in Atlanta and Portland. The more fundamental corrections to HUD's information systems and internal controls discussed above are more likely to improve HUD's budgeting and financial management.

Merging the Two Programs Is Likely to Require Considerable Effort

HUD cannot decide how to implement a statutory merger until after the enactment of a statute laying out the requirements for a merged certificate-voucher program. In the absence of such a statute, it is not possible to predict how HUD will act to merge the programs. Nonetheless, we believe that (1) persuading owners to accept new program rules and (2) ensuring adequate organizational capability to carry out a merger are likely to require considerable effort on the part of HUD and housing agencies.

HUD Will Have to Persuade Owners to Accept New Program Rules and Face Other Implementation Challenges

Contractual obligations exist between housing agencies and owners who lease their units to households assisted through the certificate and voucher programs. These contracts reflect current HUD certificate and voucher program requirements. While the number of these contracts is unknown, it is probably in at least the tens of thousands.[1] Such contracts run for an indefinite term concurrently with the leases of assisted households. As a result, HUD and housing agencies may not be able to change these contracts as long as the participating owners abide by the contracts' provisions and continue to rent to households assisted under the current programs' requirements.

To create a single combined program, HUD and housing agencies will eventually need to gain owners' acceptance of the new rules and to replace existing housing assistance payment contracts with contracts meeting the new rules. Owners may or may not be willing to participate under new rules. If forced to accept new requirements, some owners may opt out of the section 8 program and some assisted households may be evicted. If a merger occurs, HUD plans to conduct a detailed review of housing assistance contracts before making policy decisions on implementation. Such a review may provide insight into approaches for encouraging owners to replace existing with new housing assistance payment contracts. Still, HUD and housing agencies may have to operate three programs—the certificate, the voucher, and a third merged program—until existing housing assistance payment contracts expire or an alternative approach is found. Managing three programs would likely exacerbate the current inefficiencies of running two similar rental assistance programs.

However HUD proceeds, it will need to educate its own staff and provide guidance to the over 2,500 housing agencies nationwide on the new

[1]For example, the Atlanta Housing Authority's section 8 director estimated that the agency had entered into over 1,000 contracts with housing owners for approximately 5,400 certificates and vouchers.

program rules. The Director of HUD's Rental Assistance Division told us that HUD will consult with representatives of housing agencies, housing owners, and assisted households before implementing a transition to any new merged program.

Finally, housing agencies will have to develop and implement new accounting and software systems; explain the new program rules to staff, owners, and participating households; and establish unified files, among other activities. According to officials at housing agencies we visited, the administrative ease of managing a single section 8 tenant-based program would justify the considerable effort required to carry out a merger.

HUD Will Need Adequate Organizational Capability

As discussed above, HUD will have to invest much staff effort in the transition to a single combined program. HUD's current organizational structure and lines of accountability may impede these efforts. According to a recent HUD OIG report, significant problems exist in the way HUD receives, allocates, and uses staff in accomplishing its mission.[2] The Report of the National Performance Review also found that existing relationships among headquarters, regional, and field offices need to be substantially altered. These reports confirm the long-standing problems with HUD's management structure that we reported a decade ago and in 1992.[3] Given the substantial efforts required for the transition from the existing programs to a merged program, policymakers will need to ensure that HUD's staffing is adequate and is organized to permit a smooth and successful merger.

Recently, we designated HUD as a high-risk agency,[4] in part because its organizational structure blurs accountability, its information and financial systems are inadequate, and its staff do not have the skills to effectively manage programs. The Office of Management and Budget (OMB) also designated HUD at risk because it is unable to ensure efficient and effective use of its resources to achieve program results while minimizing program risk and susceptibility to fraud, waste, and abuse. Both our and OMB's designation of high risk are agencywide. Given these historical

[2]Limited Review of HUD's Management and Control of Staff Resources (93-HQ-169-0005, Mar. 8, 1993). This report identified 21 OIG reports issued in 1991 and 1992 that identified agencywide weaknesses caused in part by inadequate staffing, lack of training, decreased monitoring, and attention to other higher-priority tasks.

[3]See Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management (GAO/RCED-84-9, Jan. 10, 1984) and HUD Reforms: Progress Made Since the HUD Scandals but Much Work Remains (GAO/RCED-92-46, Jan. 31, 1992).

[4]See GAO High-Risk Program (GAO/AIMD-94-72R, Jan. 27, 1994).

inadequacies, HUD should be able to demonstrate that it can effectively carry out a merger before it is required to do so. To this end, the Secretary of HUD announced an agencywide reorganization in December 1993.

Scope and Methodology

To identify the important components of a merger of the certificate and voucher programs and the likely methods for carrying out a merger, we discussed programmatic, budgeting, financial management, and implementation issues with a range of officials inside and outside HUD. Within HUD headquarters, we met with officials in the Office of Assisted Housing (Public and Indian Housing), Offices of Budget and of Finance and Accounting (Administration), Office of Policy Development (Policy Development and Research), and Office of Inspector General. We also met with program and budget officials in HUD's regional offices in Atlanta, Georgia, and New York City, New York; and field offices in Portland, Oregon, and Richmond, Virginia. We chose these offices because they monitor the housing agencies we selected to visit.

The four housing agencies we visited were the Atlanta Housing Authority, New York City Housing Authority, Housing Authority of Portland, and Virginia Housing and Development Authority. At these locations, we met with section 8 program managers and discussed how a merger might affect housing agencies and assisted households. We chose these locations because they administer relatively large numbers of certificates and vouchers and represent state housing agencies (Virginia) and local housing agencies (Atlanta, Portland, and New York).

We also contacted national associations representing housing owners, housing agencies, and lower-income households in assisted housing and discussed similar topics. These organizations were the National Leased Housing Association, Council of Large Public Housing Authorities, National Association for Housing and Redevelopment Officials, National Low-Income Housing Coalition, and National Housing Law Project.

At each of the locations visited, we obtained documents that could provide further insight into merger topics. We also reviewed federal laws; proposed legislation; federal regulations; HUD's February 23, 1993, proposed rule (58 FR 11292); and other HUD guidance for the certificate and voucher programs. We also reviewed the 385 comments that HUD received on its proposed rule.

To obtain information on payment standards, we surveyed 23 housing agencies administering about 5,000 or more certificates and vouchers (see fig. II.1). We asked these agencies to indicate what payment standards they had in effect on March 1 for each year from 1990 through 1993. By this date each year, housing agencies had had about 5 months after HUD had published its fair market rent schedules in the Federal Register to decide whether they wanted to change their payment standard. We asked for payment standard data for 4 years to minimize the possibility that the payment standard for any one year might have been atypical.

Because of the extensive effort that would be required to analyze rent structures in 23 housing markets, we did not attempt to determine whether, in these instances, fair market rents were too high and/or payment standards were too low. Since we selected these agencies judgmentally and surveyed only a few of the more than 2,500 housing agencies issuing certificates and vouchers, our results may not be representative of payment standards nationwide.

Major Contributors to This Report

Resources, Community, and Economic Development Division Washington, D.C.

Dennis W. Fricke, Assistant Director
James C. Ratzenberger, Assignment Manager
William J. Sparling, Evaluator-in-Charge

Related GAO Products

HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994).

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