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HOUSING AND URBAN DEVELOPMENT

Reform and Reinvention Issues

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to help set the stage for addressing the budget and management problems facing the Department of Housing and Urban Development (HUD). HUD has severe organizational and management problems that it is still in the early stages of addressing. Because HUD's programs consist of large federal loan commitments and discretionary spending, controlling the agency's spending will require the reexamination of federal housing and community development policies and HUD's mission.

Our testimony today is based primarily on issued reports and testimony over the past 3 years (see app. IV). We will focus on (1) long-standing management deficiencies at HUD and its progress in addressing them, (2) problems that HUD and the Congress face in public and assisted housing programs--which account for the bulk of HUD's outlays, (3) the challenges that HUD faces in restructuring its programs and mechanisms for delivering them, and (4) fundamental questions that should be addressed in considering future housing and community development policies.

In summary:

- Four long-standing department-wide deficiencies hamper HUD's ability to effectively carry out its mission and led us to designate HUD as a "high-risk area." These deficiencies are weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems. In a report issued last month, along with reports on the other 17 high-risk areas that we have tracked over the past few years, we point out that HUD's top management has focused much attention and energy on addressing these deficiencies.[1] However, many of these efforts are still in their early stages, and HUD has a long way to go.

- HUD and the Congress have a particularly vexing set of problems to deal with in the area of public and assisted housing. These problems include how to (1) minimize the $10 billion in mortgage loan defaults HUD expects over the next 6 years and address the physical inadequacies of insured multifamily properties; (2) deal with billions of dollars of backlogged housing rehabilitation needs, increased vacancy levels, and declining tenant incomes that exist in public housing; and (3) address the spiraling costs of providing housing subsidies to lower-income families.

- To address these and other problems, HUD has recently proposed a major change in its programs and program delivery mechanisms

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[1] Department of Housing and Urban Development (High Risk Series, GAO/HR-95-11, Feb. 1995).

through its Reinvention Blueprint. If the Congress supports HUD's reinvention strategy, implementing it will require major legislative overhauls and revisions to HUD's regulations. It will also place more responsibility on the states and localities to develop new plans to implement programs and to develop performance measures. Considerable effort will also be needed to transform the Federal Housing Administration (FHA) as envisioned in the blueprint.

- Solving the problems at HUD and deciding whether to adopt the agency's Reinvention Blueprint or alternatives to it will be difficult and will require reexamining federal housing and community development policies and HUD's mission. Questions that must be addressed include (1) what policies best meet the needs of the people HUD serves, including the poor and those living in distressed communities, (2) how should these policies be implemented, and (3) what levels of government should deliver program services? Reforms--be they mild or drastic--could have serious budget and social implications because HUD currently serves millions of Americans by providing rental subsidies, making home ownership more accessible, addressing housing discrimination, and helping revitalize communities.

HUD's PROGRAMS AND BUDGET

Established in 1965, HUD is the principal federal agency responsible for programs dealing with housing and community development and fair housing opportunities. Among other things, HUD's programs provide (1) mortgage insurance to help families become homeowners and to help provide affordable multifamily rental housing for low- and moderate-income families, (2) rental subsidies for lower-income families and individuals, and (3) grants and loans to states and communities for community development and neighborhood revitalization activities.

HUD's fiscal year 1996 budget proposal requests about $26 billion in budget authority and plans about the same level of outlays. Compared with fiscal year 1995 levels, this budget proposal represents about a 2-percent increase in budget authority and a 2-percent decrease in outlays.

HUD's fiscal year 1996 budget summary projects savings of $51 billion in budget authority and $13 billion in outlays for fiscal years 1996 through 2000. These savings are based on a comparison with HUD's current services budget, which does not reflect the reinvention proposal and assumes, instead, that existing laws, regulations, and policies will remain in effect.[2] However, budget

[2]Current services budgets that reflect the anticipated costs of continuing federal programs at present levels without policy or legislative changes are developed as part of the annual budget

authority and outlays for fiscal years 1996 through 2000 are higher than would be needed if funding were frozen at the fiscal year 1995 level and no adjustments were made for inflation. Looked at this way, the budget request represents an increase in budget authority of about $21 billion and an increase in outlays of about $11 billion for the period 1996 through 2000. Appendixes I and II show comparisons of budget authority and outlay estimates for fiscal years 1996 through 2000.

HUD's MANAGEMENT DEFICIENCIES

Scandals that occurred during the late 1980s focused public attention on management problems at HUD. Internal control weaknesses, such as a lack of necessary data and management processes, were a major factor leading to the HUD scandals. Organizational problems included overlapping and ill-defined responsibilities and authorities between HUD's headquarters and field organizations and a fundamental lack of management accountability and responsibility. An insufficient mix of staff with the proper skills has hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures. Poorly integrated, ineffective, and generally unreliable information and financial management systems have failed to meet program managers' needs and have not provided adequate oversight over housing and community development programs.

HUD's slow progress in correcting the fundamental management weaknesses that allowed such incidents to occur and a concern that HUD needed congressional attention led us to decide in January 1994 that the Department warranted the focused attention that comes with being designated by GAO as a high-risk area. Similar management deficiencies at HUD have been reported by HUD's Office of Inspector General (OIG) and by the National Academy of Public Administration (NAPA). In addition to pointing out problems with HUD's organization, staff capacity, and information management and systems integration, NAPA reported that HUD has, from its inception, struggled to find a coherent identity.[3] A primary reason for this struggle is the huge number of programs that HUD administers and the diversity of these programs. Between 1980 and 1992, the number of programs for which HUD had statutory responsibility increased from 54 to just over 200.

As noted in our February 1995, high-risk report on HUD, the agency's top management team has focused much attention and energy on addressing these deficiencies. HUD has formulated a new management approach and philosophy, intended to balance risks with

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process.

[3] Renewing HUD: A Long-Term Agenda for Effective Performance, National Academy of Public Administration (July 1994).

results; has begun to implement a substantial reorganization of its field office structure; and has initiated a number of other actions that begin to address its four fundamental management deficiencies. However, the agency now faces the formidable challenges of completing its plans, translating its plans into effective actions, and implementing its new management approach into the fabric of the Department's day-to-day operations. Sustained focus, commitment, and diligence by HUD's leadership and staff will be needed--something that has not accompanied past attempts at reform and that was recently reported as a concern by HUD's Inspector General.

EXAMPLES OF MAJOR BUDGET AND MANAGEMENT PROBLEMS

I would now like to discuss three areas that illustrate some of the budget and management challenges that face HUD: multifamily insured and assisted housing, public housing, and the high cost of public and assisted housing activities. Public and assisted housing activities account for over three-fourths of the agency's outlays for discretionary activities (see app. III).

HUD's Multifamily Housing Portfolio: Status and Problems

HUD directly subsidizes and/or insures over 20,000 multifamily properties with about 2 million units. These properties expose the federal government to substantial current and future financial liabilities. Also, while much of this inventory reportedly is in decent condition, it has been estimated that at least 15 percent of the inventory has severe physical problems that threaten tenants' health and safety.

A large portion of HUD's assisted housing liabilities derive from the use of FHA mortgage insurance, which protects lenders from financial losses stemming from borrowers' defaults. FHA insures about $43 billion worth of mortgage loans that support about 14,700 properties.[4] Many FHA-insured properties also receive other HUD assistance, such as below-market interest rates or Section 8 project-based rental assistance.[5]

A large number of defaults on FHA-insured loans have occurred in the past and are expected to continue, partly because FHA has not effectively managed its portfolio. In 1993, FHA paid out over $700 million in multifamily insurance claims. FHA has also estimated that it could lose $10.3 billion as a result of future defaults on loans in this portfolio. This amount would have been even higher without the prospect of continuing Section 8 project-based and other types of assistance used to prevent or delay loan

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[4]See also Multifamily Housing: Status of HUD's Multifamily Loan Portfolio (GAO/RCED-94-173FS, Apr. 12, 1994).

[5]Project-based subsidies are attached to specific properties.

defaults. While some loan defaults are inevitable, early identification of troubled loans and prompt actions to address underlying problems are essential if defaults are to be minimized. Numerous studies over the last two decades by Price Waterhouse, HUD's OIG, and GAO have identified weaknesses in HUD's default prevention activities. Many of the weaknesses identified were related to the fundamental department-wide deficiencies that we noted earlier in this statement.

Another critical problem facing HUD is that in many cases the cost to the government of providing Section 8 project-based subsidies to assisted properties is excessive. For example, HUD has estimated that about three-fourths of the almost 10,000 Section 8 New Construction and Substantial Rehabilitation properties are subsidized at levels that are in excess of comparable market rents.[6] In some cases, the rent levels are as much as 75 percent higher than market rents. Furthermore, many multifamily properties for which HUD provides Section 8 assistance are in poor physical condition. A 1992 study estimated that about 3,200 HUD-assisted and/or insured properties were in such severe physical and financial condition that it would cost almost $1 billion to correct those problems. Some of these properties were the subject of hearings held last year at which both we and the HUD Inspector General testified.[7]

While HUD has various enforcement tools to ensure that owners maintain HUD-assisted properties in compliance with housing quality standards and other requirements, the agency has used these tools sparingly and inconsistently. Also, current legislation and regulations limit HUD's discretion in dealing with certain properties in its multifamily portfolio. For instance, the current legislation on property disposition generally requires that HUD preserve the housing so that it remains available to and affordable for lower-income households.

HUD has initiated actions to improve its ability to prevent default in multifamily properties, such as contracting out for property physical inspections and financial statement reviews and taking steps to develop an early warning system that should better

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[6]The Section 8 New Construction and Substantial Rehabilitation programs provided assistance to private developers to construct new units or to substantially rehabilitate existing units for rental to low- and moderate-income families. About 4,500 of the 10,000 properties are also FHA-insured.

[7]Federally Assisted Housing: Conditions of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standards (GAO/T-RCED-94-273, July 26, 1994) and Federally Assisted Housing: Expanding HUD's Options for Dealing With Physically Distressed Properties (GAO/T-RCED-95-38, Oct. 6, 1994).

identify financially troubled properties. Also, in November 1994 HUD organized a 24-member Special Workout Assistance Team to help field offices resolve the physical, financial, and ownership problems of troubled insured multifamily properties. Many of HUD's default prevention initiatives are in the early stages.

Public Housing: Budget and Management Issues

Significant problems continue to plague public housing, adversely affecting many of the 1.4 million individuals and families who live there. While much of the public housing stock is in good condition, and is estimated to cost between $75 and $90 billion to replace, costly modernization needs have accrued and operating subsidy costs continue to mount. Despite the nearly $8 billion in modernization and operating funds provided annually by HUD, billions of dollars of backlogged needs for housing modernization, reduced rental income due to declining tenant incomes, and increased vacancy levels are problems that must be addressed.

Since 1981, almost $15 billion in modernization funding has been provided for public housing. Despite this funding, a backlog of at least $20 billion exists and needs continue to accrue. The backlog of modernization needs puts these properties at risk of further deterioration and worsens the living conditions of affected public housing residents.

The second problem that public housing faces is that a shift over time from serving the working poor to serving the poorest of the poor has resulted in a need for increased operating subsidies. A decline in the incomes of public housing residents--the median annual income is now around $7,500--has resulted from changes in federal laws that require public housing agencies to give higher priority for admission--called preferences--to the poorest of the poor. This, coupled with requirements that residents pay 30 percent of their income for rent has meant that the need for operating subsidies has increased. In the last 6 years, the costs of operating subsidies have increased by $1 billion, from $1.9 billion in 1990 to $2.9 billion in 1995 (both amounts in nominal dollars).

Increased vacancy levels have also had a detrimental effect on public housing. Vacant units provide no rent revenue, which leads to greater needs for operating subsidies from HUD. Also, a unit of vacant housing means that an income-eligible family on the waiting list is not receiving public housing assistance. Since 1984, the average vacancy rate has increased from 5.8 percent to 8 percent. However, in some large public housing agencies where there are uninhabitable buildings, vacancy rates range from 15 to 41 percent. In our ongoing survey of public housing agencies, we identified 1,177 totally vacant buildings. Vacant buildings also exact a high toll in drug-related crime and vandalism.

With demand in most cities exceeding supply, why are vacancy rates in public housing so high? One of the primary reasons has been the lack of an effective maintenance program; that is, a lack of preventive maintenance, an inability to spend modernization funds in a timely manner, and little accountability for maintenance at the housing project level. As it now stands, HUD's fiscal year 1996 budget request could add to this problem. HUD is proposing to fund 93 percent of the operating subsidies--down from 96 percent in fiscal year 1995--for which public housing agencies are eligible according to its funding formula. Since operating subsidies make up the difference between expenses--such as routine maintenance--and rental income, reducing subsidies may lead to more deferred maintenance.

The problems with public housing are also a result of HUD's inadequate oversight. Although the Congress has provided HUD with significant authority for overseeing and intervening in the management of a housing agency, many of the same agencies continue to be plagued with poor conditions and poor management. We are currently conducting work related to HUD's oversight of troubled public housing and will keep you informed of our progress.

High Cost of Public and Assisted Housing Programs

Since 1977, the number of families assisted by HUD's rental subsidy programs has increased by over 2 million.[8] The cumulative effect of this increase and the high cost of providing subsidies creates severe budget pressures on the Congress as it tries to meet deficit reduction goals.

According to the Congressional Budget Office (CBO),[9] both the number of families that receive rental assistance and the federal outlays for those subsidies have increased almost every year since 1977. CBO reported that the number of assisted families almost doubled from 1977 through 1994, rising from about 2.4 million to about 4.7 million. Growth has been generally slow over the past few years because the Congress provided funds for fewer additional units. Outlays for rental assistance have also increased steadily since 1977. According to CBO, real outlays (adjusted for inflation) more than tripled from 1977 through 1994, rising from about $6.6 billion to about $22 billion (in 1994 dollars). Outlays are expected to remain at the same current high level, if not grow somewhat. The relatively rapid growth in outlays is primarily due

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[8]These programs include public housing, Section 8 tenant-based and project-based assistance, and Section 236 assistance (generally, subsidized interest payments to help produce rental housing).

[9]The Challenges Facing Federal Rental Assistance Programs, Congressional Budget Office (Dec. 1994).

to (1) increases in the number of assisted households and (2) rents that increased while the incomes of the clientele served declined.

What does the high cost of public and assisted housing programs mean for HUD? For one thing, without a major change in federal housing policy, many of the housing programs have now reached the point at which they need additional budget authority to preserve the number and quality of the rental units that current programs assist.[10] Budget authority needs are directly related to certain assumptions, such as the length of the term of the section 8 contracts being renewed. Assuming a 5-year renewal period, CBO has estimated that the cost of preserving existing units will be, on average, about $22 billion in budget authority per year. As the Congress faces increasing pressure to reduce the deficit, these large amounts present difficult choices for policymakers who must consider competing needs.

HUD's REINVENTION BLUEPRINT

In December 1994, HUD introduced its Reinvention Blueprint. In the blueprint, HUD proposes to address many of the management and budget problems facing it by restructuring and consolidating many of the agency's programs. The blueprint envisions major changes in HUD's programs and organization, ending in three principal results: (1) removing public housing agencies from subsidy programs and making them compete with the private market; (2) consolidating 60 major categorical programs into 3 flexible, performance-based funds; and (3) establishing an entrepreneurial, government-owned FHA. If the Congress supports HUD's reinvention strategy, implementing the blueprint will require major legislative overhauls, revisions to the agency's regulations, and the design of formulas for allocating funds that are now awarded competitively. It will also place more responsibility on states and localities to develop new plans to implement the programs and to develop performance measures. Considerable effort will also be needed to transform FHA as envisioned in the blueprint.

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[10]Budget authority would be needed for several purposes, including (1) extending the life of assistance contracts that have started to expire, (2) providing incentives to owners of certain assisted housing projects to prevent them from dropping out of federal housing programs, (3) disposing of projects whose owners have defaulted on their federally insured mortgages, (4) continuing operating subsidies for public housing, and (5) reducing the accumulated backlog of repairs to the stock of assisted housing.

Reinventing Public Housing

Some of the most radical changes to existing programs are planned for the area of public housing. For example, under the blueprint, public housing residents will receive portable rental certificates, wherever practicable, permitting them to seek better housing elsewhere. States, local jurisdictions, and neighborhoods would be given the flexibility to design public housing programs to meet their needs while, at the same time, the public housing stock would be forced to compete with other housing stock in the local area.

HUD sees this as beneficial because to be competitive housing agencies will have to improve the quality of their stock and seek a mix of tenant incomes, and because the agencies will be allowed to demolish buildings that are not cost-effective to rehabilitate. Furthermore, HUD has said that its proposal to give working families greater preference for admission to public housing will boost these families' efforts to achieve self-sufficiency by allowing them to keep more of their income when they get a job or get a raise. Also, by admitting tenants with higher incomes, HUD expects some reduction in the need for operating subsidies since rents will still be determined as a portion of income. However, HUD's reinvention of public housing will require major legislative and regulatory changes, including:

- repealing the current requirement that housing agencies replace on a one-for-one basis any units they demolish or sell;
- eliminating current federal preference rules for admission to public housing that give the highest priority to admitting the poorest of the poor;
- consolidating a variety of public housing capital programs into a single capital grant to housing agencies;
- consolidating funding for anti-crime purposes, coordinating services, and providing operating subsidies for public housing into a single fund; and
- requiring HUD to assume control over troubled public housing agencies.

Reaction to HUD's blueprint by low-income advocacy groups and public housing agencies has not been wholly positive, however. Low-income housing advocates believe that tight rental markets and the potential for housing discrimination work against the success of relying on tenant-based, portable assistance. Moreover, vulnerable populations--such as the elderly--are not likely to have a desire to seek out alternative housing opportunities. And housing authorities fear that they will have to compete with privately owned rental housing without being granted regulatory relief and with the burden of some of their housing not being in shape to be marketable. Concerns have also been expressed that vouchering out portions of the public housing inventory is likely to have significant cost implications.

HUD is already finding out that its plans for converting all public housing to tenant-based assistance within 3 years are overly optimistic. Program officials now estimate that the transition will take at least 8 years. HUD believes the longer transition period is needed (1) in order to allow housing agencies to expend the over $9 billion of modernization and other funds the Congress has already budgeted for these programs, allowing housing agencies to become competitive with the private market, and (2) to prevent the loss of valuable housing stock which might take longer than 2 to 3 years to be made marketable and which residents and local governments agree should be preserved. HUD officials recognize that there is still a substantial backlog of modernization needs and that billions of dollars have been invested in much of this stock. If public housing subsidies were converted to tenant-based certificates before the properties became competitive, the properties would lose vital rental income, which may prevent them from remaining available as affordable low-income housing.

Efforts to Consolidate Programs

HUD has proposed additional program consolidations that impact community development, housing, and homelessness assistance programs. For example, HUD plans to create a Community Opportunity Fund that largely builds on the Community Development Block Grant (CDBG) program and an Affordable Housing Fund that consolidates programs for housing production, rehabilitation, and home ownership. HUD believes that creating these funds will (1) give states and localities added flexibility in how they spend funds and (2) achieve accountability for results.

While community organizations we reviewed generally favored flexible funding, they were concerned about the potential impact of competing priorities at the local level and with performance measurement requirements.[11] Community development experts advocate a multifaceted, comprehensive approach to address the complex, interrelated problems in distressed urban areas. Flexible funding facilitates this approach. However, some community organizations were concerned that program consolidations could mean reduced funding for some efforts--particularly those to serve the homeless--because of competing local priorities. In addition, we found through our work that community development researchers have had difficulty in developing performance measures for

[11]Community Development: Comprehensive Approaches Address Multiple Needs but Are Challenging to Implement (GAO/RCED/HEHS-95-69, Feb. 8, 1995).

revitalization efforts because communities' needs differ and some activities may not be quantifiable.

Transforming FHA

Considerable effort will also be needed to transform FHA into the entrepreneurial, government-owned corporation envisioned in the blueprint. According to the blueprint, a new FHA corporation would be smaller and cost the taxpayer less. The new corporation would achieve this by relying increasingly on third-party partners to design products that meet market needs and obtaining a corporate authority that would provide FHA business-like flexibility in employment, contracting, and deployment of resources. Eventually, it is envisioned that the corporation would have a small, but highly skilled staff.

Simply revising FHA's charter will, however, not transform it from "a slow-moving government bureaucracy," as the blueprint describes it, into a "government-owned, streamlined, market-driven enterprise." In particular, FHA will need to overcome the long-term staffing, information system, and internal control weaknesses that have impaired its effectiveness. Accomplishing this will, at a minimum, require staffing and organizational changes, adjustments in FHA's products and product delivery mechanisms, re-engineering of FHAs processes and procedures, and disposition of some of its current assets. Such changes will take considerable time and effort.

Clearly one of the major issues in restructuring FHA is resolving the multifamily housing problems that I discussed earlier in my statement. A key effort proposed in the blueprint to address these problems is converting project-based Section 8 subsidies to tenant-based subsidies. Section 8 subsidies would--after a transition period--no longer be directly attached to property units; instead landlords would receive Section 8 subsidies only when units are occupied by tenants holding Section 8 vouchers or certificates. For insured properties that have rents above those in the marketplace, HUD would accomplish this by restructuring the properties' debt through a process known as "marking-to-market." This action would allow HUD to reduce rents to levels reflecting the properties' true market value. According to the reinvention blueprint, this restructuring would take place when the properties' current Section 8 contracts expire (or earlier if legally permissible). Also, it would, in many cases, result in claims against FHA's insurance fund.[12]

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[12]Whenever feasible, the proposal calls for using "partial payments of claim" in which FHA would essentially reduce the outstanding mortgage on the property to the extent necessary for rents to be lowered to those reflecting the property's market value. The partial payment of claim would be captured in a "soft second

HUD believes this approach would have various benefits, including lowering the cost of providing Section 8 assistance, increasing residents' ability to move to apartments of their own choice, reducing federal support for substandard properties, and avoiding what FHA has termed "simplistic preserve at all costs strategies which have proven unaffordable and ineffective." However, various concerns have been raised about the marking-to-market approach. These include that the approach would be extremely staff-intensive and would require FHA to supplement its staff by obtaining considerable outside technical expertise. Furthermore, to carry out the process successfully, FHA would need to limit subsidies to the precise amount needed to keep the project operating while not giving owners a windfall profit--a very complex endeavor--and to administer the process in a way that minimizes any adverse impact on residents, owners, managers, investors, and lenders. Along these lines, Standard and Poors has already announced that it intends to examine the ratings for bonds backed by Section 8 properties in part because of concerns that rent restructuring could compromise owners' ability to meet debt service payments. Standard and Poors' reviews will include both FHA-insured Section 8 projects and projects that are not FHA-insured. Reviews of the uninsured projects involve approximately $745 million of local and $8.3 billion of state agency debt that, according to Standard and Poors, all relies to some degree on income streams from project-based Section 8 assistance.

Partly because of these concerns, alternatives to HUD's marking-to-market approach have been proposed. One approach would simply discontinue project-based subsidies when Section 8 contracts expire or come up for renewal without restructuring the properties' debt. Households living in units receiving project-based assistance would be provided with tenant-based assistance, and the formerly subsidized projects would be left to compete for tenants with other privately owned housing. While proponents of this approach recognize that the approach may cause some projects to go into default, they believe that the cost to the government will still be less than continuing to provide project-based subsidies. HUD officials question this approach because they believe it would, among other things, provide a far less orderly transition to tenant-based assistance than the marking-to-market approach and is more likely to result in deterioration of the condition of properties that would, in turn, decrease property values and increase federal costs.

FUTURE FEDERAL HOUSING AND COMMUNITY DEVELOPMENT POLICY

HUD's serious management and budget problems have greatly hampered effective implementation of its wide-ranging

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mortgage" on the property that could be payable under certain conditions, for example, if the property is sold.

responsibilities. Major changes and actions are clearly needed. Such reforms, however, could have serious implications for the federal budget, federal agency management, and the families and institutions that HUD serves.

HUD's Reinvention Blueprint proposes a consolidation of many of the Department's programs. The blueprint is an evolving document, and many of the details of how the restructuring would occur are still being developed. The blueprint, however, envisions that HUD will retain much of its current mission, although the design and delivery of its programs will change. Others have suggested more drastic steps, such as moving HUD's functions to other federal agencies.

Any proposal must recognize that HUD has massive financial responsibilities and administers programs that affect millions of people. Balancing business, budget, and social goals will be a formidable task. While each proposal will likely invoke considerable debate on its merits, we would like to lay out some fundamental questions that policymakers might ask in considering the federal government's role--and HUD's future--in housing and community development activities. The questions are as follows:

- What are the needs of the people HUD serves, including the poor and those living in distressed communities, and what federal housing and community development policies can best meet these needs?

- How should federal housing and community development policies be implemented? How should services be designed and delivered? How should funding be allocated? What mechanisms are needed to assure policymakers that funds are spent and populations are served as intended?

- What levels of government should deliver programs and services? What is the capacity of those governmental entities to deliver the services? What actions, if any, are needed to enhance the capabilities of those entities to effectively implement their responsibilities?

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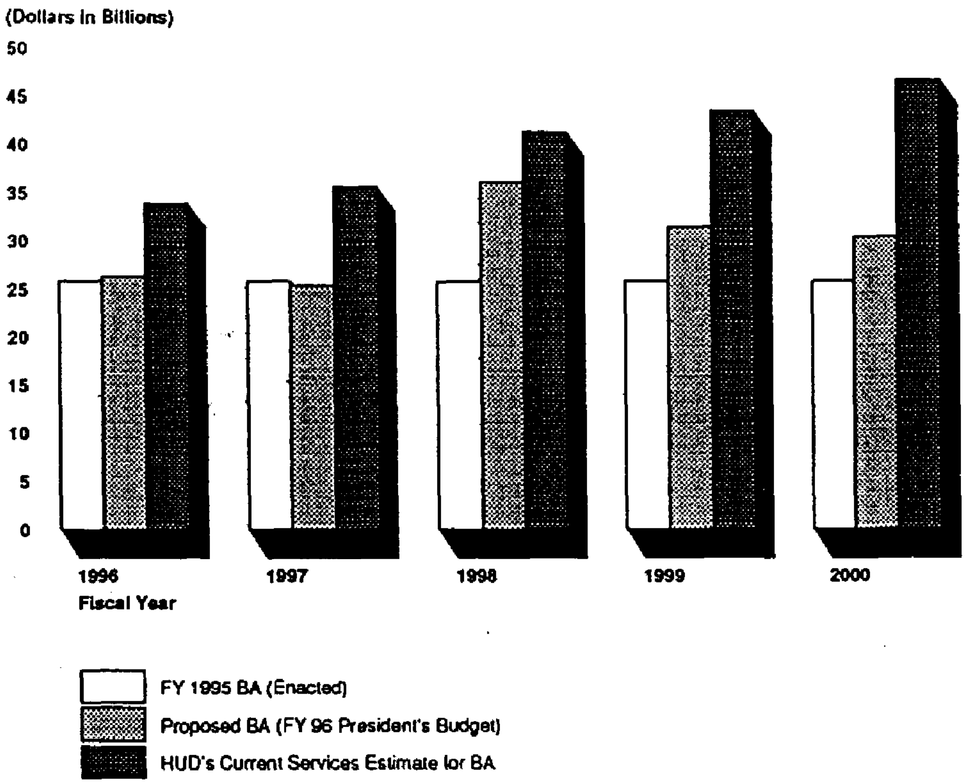
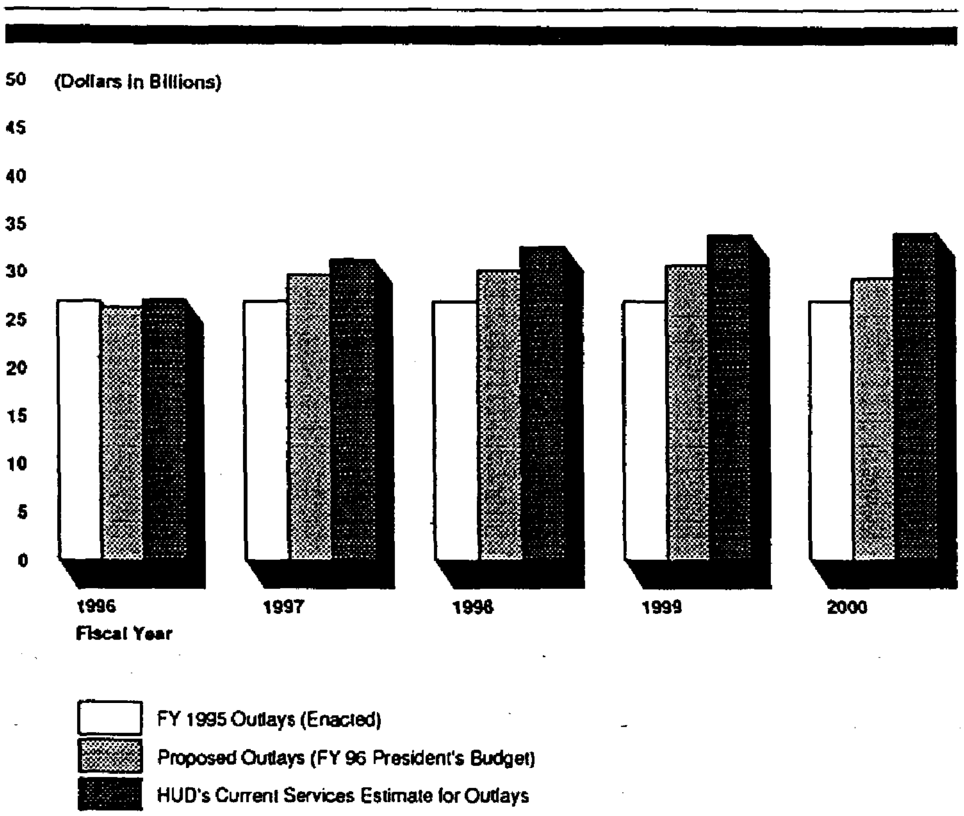
Mr. Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you and other members of the Subcommittee might have. We in GAO look forward to working with the Congress to help address the issues before it.

A Comparison of Budget Authority for FY 1995, Proposed FY 1996, and Current Services Estimate



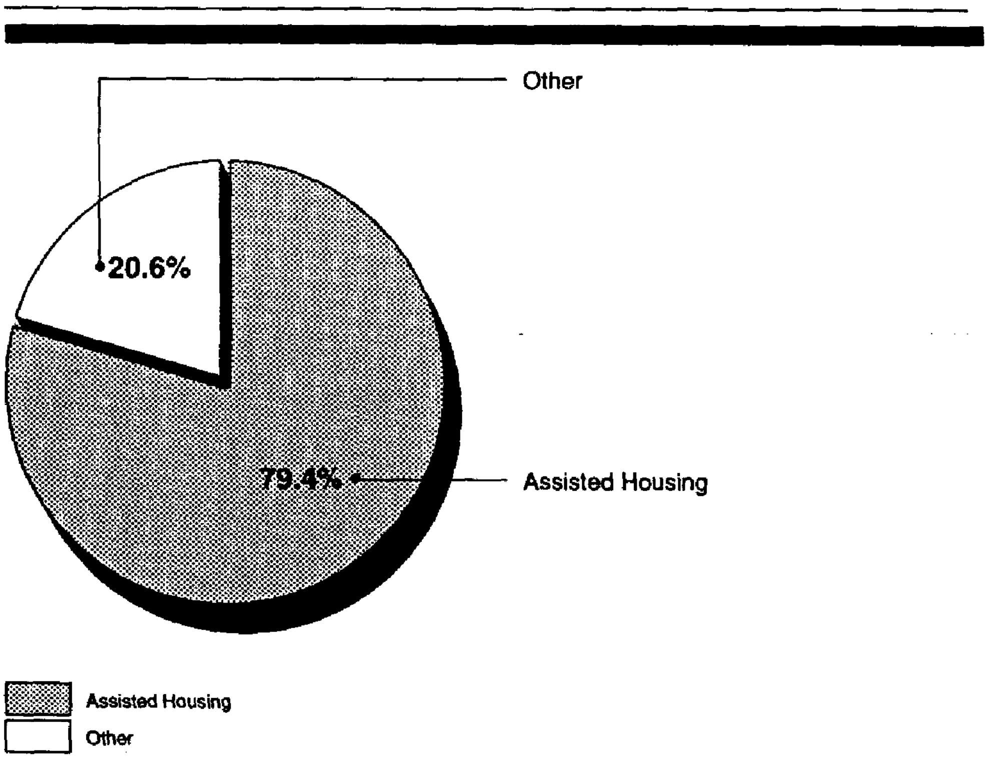
Current services budgets that reflect the anticipated costs of continuing federal programs at present levels without policy or legislative changes are developed as part of the annual budget process.

A Comparison of Outlays for FY 1995, Proposed FY 1996, and Current Services Estimate



Current services budgets that reflect the anticipated costs of continuing federal programs at present levels without policy or legislative changes are developed as part of the annual budget process.

HUD's FY 1996 Discretionary Budget Outlays (estimated)



The assisted housing category includes public and Indian housing and other housing programs. The other category includes community planning and development, the Government National Mortgage Association, Fair Housing, research, and administration.

Source: HUD's fiscal year 1996 Budget Summary.

SELECTED GAO PRODUCTS

Housing and Urban Development: Reforms at HUD and Issues for Its Future (GAO/T-RCED-95-108, Feb. 22, 1995).

Housing and Urban Development: Reinvention and Budget Issues (GAO/T-RCED-95-112, Feb. 22, 1995).

Department of Housing and Urban Development (High-Risk Series, GAO\HR-95-11, Feb. 1995).

Community Development: Comprehensive Approaches Address Multiple Needs but Are Challenging to Implement (GAO/RCED/HEHS-95-69, Feb. 8, 1995).

Housing and Urban Development: Major Management and Budget Issues (GAO/T-RCED-95-86, Jan. 19, 1995, and GAO/T-RCED-95-89, Jan. 24, 1995).

Federally Assisted Housing: Expanding HUD's Options for Dealing With Physically Distressed Properties (GAO/T-RCED-95-38, Oct. 6, 1994).

Federally Assisted Housing: Condition of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standards (GAO/T-RCED-94-273, July 26, 1994, and Video GAO/RCED-94-01VR).

Public Housing: Information on Backlogged Modernization Funds (GAO/RCED-94-217FS, July 15, 1994).

Homelessness: McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution (GAO/RCED-94-37, May 31, 1994).

Section 8 Rental Housing: Merging Assistance Programs Has Benefits but Raises Implementation Issues (GAO/RCED-94-85, May 27, 1994).

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

Multifamily Housing: Status of HUD's Multifamily Loan Portfolios (GAO/RCED-94-173FS, Apr. 12, 1994).

Community Development: Block Grant Economic Development Activities Reflect Local Priorities (GAO/RCED-94-108, Feb. 17, 1994).

Housing Finance: Expanding Capital for Affordable Multifamily Housing (GAO/RCED-94-3, Oct. 27, 1993).

Assisted Housing: Evening Out the Growth of the Section 8 Program's Funding Needs (GAO/RCED-93-54, Aug. 5, 1993).

Multifamily Housing: Impediments to Disposition of Properties Owned By the Department of Housing and Urban Development (GAO/T-RCED-93-37, May 12, 1993).

HUD Reforms: Progress Made Since the HUD Scandals but Much Work Remains (GAO/RCED-92-46, Jan. 31, 1992).

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