



## Testimony

Before the Subcommittee on Housing and Transportation,  
Committee on Banking, Housing, and Urban Affairs,  
U.S. Senate

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# HOUSING AND URBAN DEVELOPMENT

## Comments on HUD's Fiscal Year 2002 Budget Request

Statement of Stanley J. Czerwinski, Director,  
Physical Infrastructure Issues



G A O

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Mr. Chairman and Members of the Subcommittee:

We are here today to testify on the Department of Housing and Urban Development's (HUD) fiscal year 2002 budget request. Because HUD's 2002 budget request was released only about 2 weeks ago, we can offer only a general discussion of its policy implications and program trade-offs. Accordingly, our objective today is to raise some issues for your consideration as you evaluate HUD's fiscal year 2002 request and to identify opportunities for improving HUD's management of its financial, program, and budget processes.

First, with an eye toward examining the level of resources devoted to HUD's program activities, we will provide a preliminary analysis of HUD's fiscal year 2002 budget request. Second, we will explore the role that unexpended balances play in HUD's fiscal year 2002 budget request and overall management of its programs. Unexpended balances are appropriations that HUD received in earlier fiscal years but has not yet spent. These balances may therefore be available for recapture. In recapturing funds, HUD deobligates excess funding that was previously obligated but that HUD has determined will not be needed. In some cases, HUD can use a portion of the recaptures to fund program activities, reducing its need for new appropriations. In other cases, the Congress can rescind—that is, take away—some of these recaptures. Our examination will focus, in particular, on whether HUD has taken the steps necessary to manage unexpended balances effectively. To do so, HUD needs to identify what portion of these balances is available for recapture and then account for that available portion when formulating its current budget request.

In summary, most attention in the press and elsewhere has focused on HUD's request for discretionary funding authority. That request is for \$30.4 billion, which HUD has characterized as a 7-percent increase over last year's discretionary budget authority. There are additional factors that must be considered in evaluating this budget request, including HUD's ability to expend requested funding. The budget is also being debated at the program level, where some programs would grow, some would shrink, and some would be eliminated.

In recent years, HUD has had significant unexpended balances. These balances have made it more difficult for the Congress to assess the Department's need for new appropriations. Without accurate and timely information about the nature, amount, and availability of HUD's unexpended balances, decisionmakers cannot fully and fairly evaluate the Department's funding needs. HUD has initiated several short-term efforts to identify, quantify, and recapture some unexpended balances and has, in fact, recaptured about \$3 billion each year between fiscal year 1998 and fiscal year 2000. In addition, in each of the past 2 years, the Congress has rescinded almost \$2 billion of balances, using the funds for other purposes. In spite of these efforts, HUD has not yet integrated the processes needed to routinely and accurately account for unexpended balances into its ongoing financial, program, and budget management. As a result, HUD does not have the information it needs to (1) determine with assurance how much of the unexpended balances should be recaptured and (2) clearly factor these funds into its budget request. Our analysis of its current requests for the Public Housing Capital Fund illustrates these points.

## **Comparison of HUD's Budget Requests for Fiscal Years 2001 and 2002**

For fiscal year 2002, HUD is requesting \$30.4 billion in discretionary budget authority, which HUD has characterized as a \$2 billion, or 7-percent, increase over its fiscal year 2001 discretionary funding. Currently, there is a lot of debate about the size of HUD's budget request in comparison to previous years. But the more important issue is whether HUD has sufficient justification for the amount requested.

One key issue that needs examination is the amount of additional funding HUD needs in its Housing Certificate Fund in light of the \$4.2 billion advance appropriation provided in fiscal year 2001 that will be available in fiscal year 2002. According to HUD officials, this advance was to cover rental assistance contracts expiring in the first quarter of fiscal year 2002. However, HUD's fiscal year 2002 budget also includes new budget authority to cover expiring contracts. HUD's budget request shows that it expects to end fiscal year 2002 with a \$4.2 billion unobligated balance in the Housing Certificate Fund. HUD officials indicated that the \$4.2 billion in unobligated funds was needed in the first quarter of fiscal year 2003 to cover the renewal of contracts that are funded on a calendar-year basis and expire between October 1 and December 31, 2002. Hence, this \$4.2 billion would support no program activity in fiscal year 2002. The officials further explained that in the future, budgetary resources would only need to cover one year, rather than the 15 months covered by the fiscal year 2002 budget. While HUD may need to carry over some unobligated funds from one fiscal year to the next, HUD has not

provided rationale supporting \$4.2 billion as the amount of unobligated balances it needs to carry over to renew contracts expiring in the first quarter of fiscal year 2003.

In addition to consideration of the overall size of HUD's budget request, the level of funding for individual programs should also be considered. The budget proposes changes in a number of HUD's programs. We would now like to discuss some of these changes.

#### Housing Certificate Fund: \$2 Billion Increase

HUD's budget request proposes increasing the Housing Certificate Fund from about \$14 billion to about \$16 billion. This fund helps low-income families afford the high cost of rental housing by subsidizing their rents.<sup>1</sup> Starting in the 1970s and 1980s, HUD entered into long-term contracts to provide Section 8 project-based rental assistance. According to HUD, each year, more long-term contracts expire. As a result, HUD says it needs about \$2 billion more this year for contract renewals. Renewing these contracts requires more budget authority, but it does not increase the number of households receiving assistance this coming year. In addition, HUD is proposing to expand the tenant-based program to serve approximately 34,000 more households at an additional cost of about \$200 million.

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<sup>1</sup>These subsidies are linked either to the unit (project-based) or to the resident (tenant-based). Under the project-based program, HUD contracts with property owners to provide housing assistance for low-income families. Under the tenant-based program, families receive rental assistance housing vouchers or certificates.

As discussed earlier, according to HUD, the funding level requested for this program would leave it with an unobligated balance of \$4.2 billion at the end of fiscal year 2002.

#### Public Housing Operating Fund: \$150 Million Increase

The fiscal year 2002 budget proposes increasing the Public Housing Operating Fund by \$150 million over last year's budget. The operating fund subsidizes the day-to-day operating expenses of public housing agencies. HUD's fiscal year 2002 budget increases this fund to \$3.4 billion to accommodate public housing needs such as maintenance, crime-prevention activities, and utility costs. However, this \$150 million program increase must be considered in the light of the elimination of the \$309 million Public Housing Drug Elimination Grant program, which we will discuss later.

#### American Down Payment Fund: \$200 Million Set-Aside

HUD's fiscal year 2002 budget introduces the \$200 million American Dream Downpayment Fund. This fund, within the HOME Investment Partnership Program (HOME), would match the down-payment assistance provided by third parties to approximately 130,000 low-income and minority families seeking to buy their first homes. HOME is a flexible block grant that provides support for local affordable housing efforts. HOME funds are allocated by formula to states, counties, and large cities. The total funding for HOME would remain the same as last year at approximately \$1.8 billion. However, HUD officials stated that the American Dream Downpayment

Fund requires that states, counties, and large cities use \$200 million of their formula block grant funding for this down-payment program.

#### Public Housing Capital Fund: \$700 Million Decrease

The largest decrease in HUD's fiscal year 2002 budget proposal is the \$700 million reduction in the Public Housing Capital Fund. This fund provides formula grants to public housing agencies for such activities as rehabilitation and modernization. The budget provides \$2.3 billion for this fund. Based on a contracted study, HUD believes this amount will be sufficient to meet all new capital needs. Furthermore, HUD states that public housing agencies have large amounts of unspent capital funds from previous years that they can use to address any backlog of capital needs. HUD states that the purpose of the reduction in this program is for the public housing agencies to draw down capital funds that have been obligated but not expended. However, HUD plans to implement the \$700 million cut across-the-board, which may have the unintended consequence of penalizing those public housing agencies that have few or no unexpended balances because they spent their funds in a timely manner.

#### Community Development Block Grant Program: \$311 Million Decrease

HUD's fiscal year 2002 budget proposes eliminating selected set-asides in the Community Development Block Grant (CDBG) program. The CDBG program provides state and local communities with a flexible source of funds for economic development and community revitalization. Most of the funding (about \$4.4 billion) is distributed by

formula and would remain at the fiscal year 2001 level. HUD's budget would cut almost half of the CDBG set-asides. The principal targets for elimination are the Economic Development Initiative set-aside, which supports local job-creation projects, and the Neighborhood Initiative Demonstration, a congressional set-aside that funds local neighborhood-improvement strategies. HUD's budget suggests that the types of projects funded by these set-asides would still be eligible for funding under the formula portion of the CDBG program.

#### Public Housing Drug Elimination Grant Program: \$309 Million Decrease

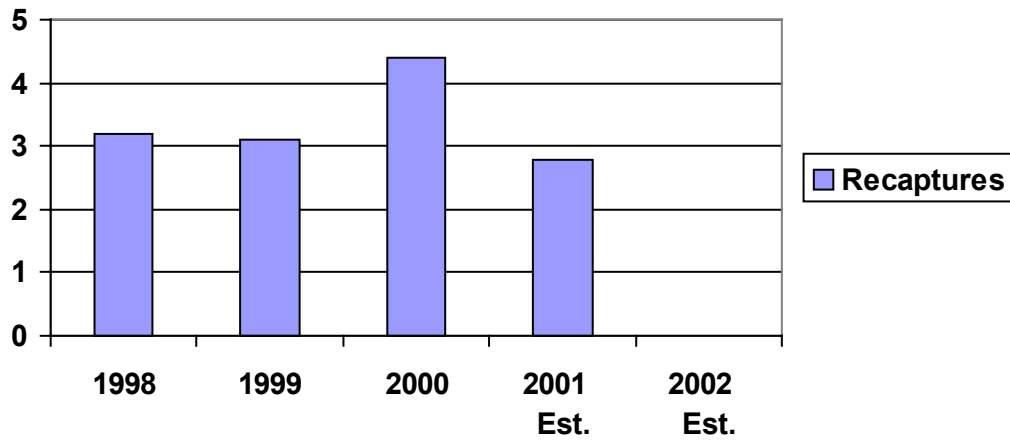
HUD's fiscal year 2002 budget proposes the elimination of the Public Housing Drug Elimination Grant Program, which provides formula grants to local public housing agencies to help reduce drug activity in public housing. HUD cites three reasons for eliminating the program: (1) It duplicates activities eligible under the Public Housing Operating and Capital Funds, (2) other federal programs and funds are also available for these activities, and (3) HUD's Inspector General has identified certain inappropriate uses of such funds. HUD's budget suggests that public housing agencies could utilize operating or capital funds for these anti-drug activities, although, as previously mentioned, HUD has also proposed that the Capital Fund be reduced by \$700 million. In addition, the operating fund would be reduced by \$10 million, which is scheduled for transfer to HUD's Inspector General to continue Operation Safe Home. To date, Operation Safe Home has been funded by the Public Housing Drug Elimination Grant program that HUD is proposing to eliminate.



## **HUD's Management of Unexpended Balances Is Crucial in Considering Its Fiscal Year 2002 Budget Request**

For years, unexpended balances have clouded HUD's budget needs because HUD has not adequately determined what portion of them is available for recapture. While these balances have been very large, HUD has not had the information needed to quantify the amount available for recapture from them. With such information, HUD could then take the steps necessary to recapture the extra funds. We have worked with HUD and the Congress to identify funds available for recapture. As shown in figure 1, from fiscal year 1998 through fiscal year 2000, HUD recaptured over \$3 billion a year in unexpended balances. However, HUD officials told us they did not estimate any recaptures for fiscal year 2002.

Figure 1: Total HUD Recaptures for Fiscal Years 1998 – 2002



Dollars in billions

Source: HUD's SF-133 Budget Execution Reports and President's Fiscal Year 2002 Budget Appendix

In response to our previous recommendations, HUD has also established short-term task forces to quantify and recapture unexpended fund balances. For example, in March 1998, we recommended that HUD review unexpended balances and ensure that excess balances were recaptured from its project-based Section 8 program, in which HUD contracts with owners to provide housing for low-income families.<sup>2</sup> In response, in September of that year, HUD initiated a review of unexpended balances in all of its programs to determine whether these balances could be recaptured. According to HUD officials, this review identified and recaptured unexpended balances, but the effort was suspended.

<sup>2</sup> *Section 8 Project-Based Rental Assistance: HUD's Processes for Evaluating and Using Unexpended Balances Are Ineffective* (GAO/RCED-98-202, July 22, 1998) and *Housing and Urban Development: Comments on HUD's Fiscal Year 1999 Budget Request* (GAO/T-RCED-98-123, Mar. 12, 1998).

In September 1999, as part of our review of HUD's fiscal year 2000 request, we again recommended that HUD identify programs with a history of unexpended balances and work to determine their obligation status and availability for recapture.<sup>3</sup> In response, HUD established an unexpended balance task force to study these balances in all its programs. As part of this effort, HUD contracted for studies of five programs<sup>4</sup> with large unexpended balances to determine the reasons that funds were underutilized in these programs and to identify possible solutions. However, the studies focused primarily on the reasons for slow expenditure of funds and did not provide HUD with enough information to determine whether the unexpended balances were available and could be used to reduce future program needs. For example, in the study of the Public Housing Capital Fund, the contractor evaluating the program reported that there were not enough data to evaluate the use of all unexpended capital program funds.

Such information could help HUD better determine the extent to which unexpended balances could be used to offset the funding reductions it is proposing for this program. For fiscal year 2002, HUD is requesting \$2.3 billion to fund the Public Housing Capital Fund program, \$700 million less than last year. HUD said its request is based on the assumption that unexpended balances in this program can cushion the cut. However, HUD has been unable to determine the amount of recapturable funds in the program.

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<sup>3</sup> *HUD's Fiscal Year 2000 Budget Request: Additional Analysis and Justification Needed for Some Programs* (GAO/RCED-99-251, September 3, 1999) and *Housing and Urban Development: Comments on HUD's Fiscal Year 2000 Budget Request* (GAO/T-RCED-99-104, Mar. 3, 1999).

<sup>4</sup> HUD contracted to study the Section 202 Supportive Housing for the Elderly Program, CDBG, Public Housing Capital Fund, and Section 8 Project-Based and Tenant-Based programs under the Housing Certificate Fund.

The Capital Fund consolidates the funding for a number of HUD's public housing programs, including the Public Housing Development program, the Comprehensive Grant program, and the Major Reconstruction of Obsolete Projects program, as well as the Public Housing Debt Service Account. HUD, however, does not have an information system that integrates the obligation data from all these different parts of the Capital Fund. HUD also lacks aggregate information on the status of individual capital fund activities undertaken by public housing agencies. Without such information as the amount of funds housing agencies have under contract, when projects will be completed, and what project plans have fallen through, HUD will not be able to routinely quantify unexpended balances that might be available for recapture. HUD officials agreed that such detailed information was needed, but they pointed out that public housing agencies are not required to submit such details on the status of their capital projects.

## **Conclusions**

In conclusion, the ability of the Congress to assess HUD's overall funding needs for fiscal year 2002 is complicated by its incomplete analysis of unexpended balances in its programs. The most significant example is the \$4.2 billion unobligated balance stemming from HUD's treatment of the advance appropriation for the Housing Certificate Fund. HUD has started to move in the right direction by beginning to study unexpended balances and attempting to factor them into its budget request. However, it has not yet adequately determined what portion of these balances can be used to offset the need for new appropriations. As requested by both the Subcommittee Chairman and Ranking Member, we will continue to work with the Subcommittee and HUD to further

clarify these issues for congressional oversight and to encourage HUD to develop systems, integrate and analyze needed information, and appropriately factor unexpended balances into its budget requests. However, until HUD routinely and fully determines what portion of its unexpended balances is available and clearly presents this information in its budget requests, the Department's need for new appropriations will remain unclear, and the Congress will continue to have difficulty evaluating HUD's funding requests.

### **Recommendations for Executive Action**

In order for HUD to fully account for unexpended balances in its funding requests, we recommend that the Secretary (1) develop systems that routinely provide timely, reliable information on the status of unexpended funds for the purpose of quantifying the amount available for recapture or rescission; (2) routinely incorporate this information into the management and operation of programs; and (3) consistently use this information in formulating its budget request, clearly demonstrating how it is taking these balances into account when setting forth its budget needs. For example, for the Public Housing Capital Fund, HUD should (1) develop information systems to aggregate data on the obligation status of individual housing agencies' capital fund projects, (2) use that information to reallocate funds among public housing agencies as needed, and (3) adjust its budget request for the Public Housing Capital Fund accordingly.

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Mr. Chairman, that concludes our prepared statement. We would be happy to answer any questions that you or Members of the Subcommittee may have.

### **Contact and Acknowledgments**

For future contacts regarding this testimony, please contact Stanley Czerwinski or Carol Anderson-Guthrie at (202) 512-2834. Individuals making key contributions to this testimony included Christine Bonham, Elaine Boudreau, Diane Brooks, Don Cowan, Michael Curro, Dwayne Curry, Denise Fantone, Rick Hale, John McDonough, John McGrail, Michael Mgebroff, Kirk Menard, and Alwynne Wilbur.