

May 2004

RURAL HOUSING SERVICE

Agency Has Overestimated Its Rental Assistance Budget Needs over the Life of the Program



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Highlights of [GAO-04-752](#), a report to congressional requesters

RURAL HOUSING SERVICE

Agency Has Overestimated Its Rental Assistance Budget Needs over the Life of the Program

Why GAO Did This Study

The Rural Housing Service's (RHS) Section 521 Rental Assistance Program provides rental subsidies to about 250,000 rural tenants through 5-year contracts with project owners; 20-year contracts were also issued from 1978 through 1982. In early 2003, RHS reported hundreds of millions of dollars in unexpended balances, primarily tied to 5- and 20-year contracts issued from 1978 through 1982. Since contracts remain active until all funds are expired, some of these contracts will likely last as long as 38 years. GAO was asked to assess (1) the activity level of rental assistance contracts issued from 1978 through 1997 that have unexpended balances and the possibility of deobligating these balances, and (2) the activity level of rental assistance contracts issued from 1998 through 2002 and the accuracy of RHS's estimates of the rate at which these funds would be used. The Department of Agriculture commented on our responses to these questions.

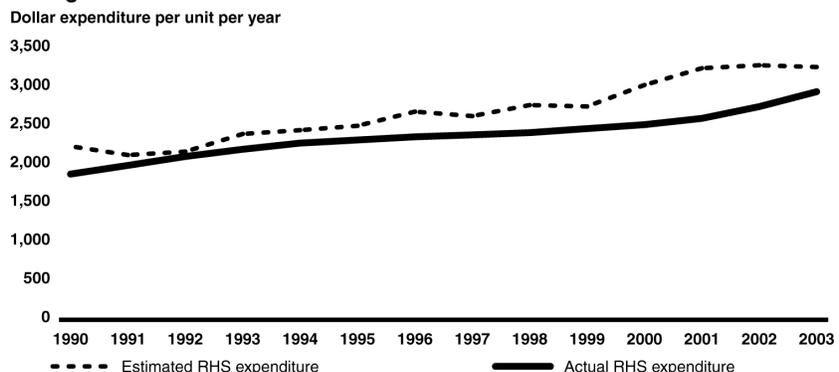
What GAO Found

Based on their age, contracts (both 5 and 20 year) issued from 1978 through 1997 should have expired by the end of 2002. As of June 2003, approximately 18 percent of these contracts were still active, accounting for \$605 million in unexpended balances. Most of this amount (\$510 million, or 84 percent) involved the 32 percent of the contracts from 1978 through 1982 that were still active. At current spending rates, it will take another 7 years for these contracts to expend their funds, 8 years after the last of the 20-year contracts were expected to expire. Contracts issued from 1983 through 1997 should expend their remaining funds in 2004. According to USDA, any effort to recapture the remaining unexpended funds associated with rental assistance agreements entered into from 1978 through 1982 would result in a breach of those contracts and would subject USDA to liability.

As of June 2003, 74 percent of the total number of contracts issued in 1998 were still active, even though RHS expected these contracts to run out during 2003, suggesting that these contracts may have been overfunded. About 25 percent, or \$114 million, of the funds remain from the 1998 contracts, and about 35 percent, or \$208 million, remain from the 1999 contracts. Furthermore, only 11 percent of the funds from the contracts issued in 2002 were spent during the contracts' first 1.5 years, suggesting that many of these contracts are expending their funds more slowly than RHS anticipated. Based on current spending rates, and allowing for inflation, the average contract issued during these years will likely run out of funds during its sixth year.

GAO analysis of rental assistance payment data showed that the agency has overestimated its budget needs almost every year since 1990, the earliest year for which GAO gathered data. Just as GAO found that contracts issued from 1978 through 1997 have lasted beyond their intended terms, it appears that RHS has overestimated its budget needs over the life of the rental assistance program.

Actual Versus Estimated Rental Assistance Expenditures Per Unit Per Year, from 1990 through 2003



Source: GAO analysis of RHS data.

www.gao.gov/cgi-bin/getrpt?GAO-04-752.

For more information, contact William B. Shear at (202) 512-4325 or shearw@gao.gov.

Contents

Letter		1
	Agency Comments	4
Appendix		
	Appendix I: Briefing to the House Committee on Financial Services	6

Abbreviations

AMAS	Automated Multi-Housing Accounting System
OMB	Office of Management and Budget
RHS	Rural Housing Service
USDA	United States Department of Agriculture

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G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

May 20, 2004

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
House of Representatives

The Honorable Sue W. Kelly
Chairwoman
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

The Honorable Robert W. Ney
Chairman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
House of Representatives

Each year, the Rural Housing Service (RHS) of the Department of Agriculture (USDA) provides rental subsidies through the Section 521 Rental Assistance Program to about 250,000 rural tenants living in federally subsidized properties. RHS provides the subsidies through 5-year contracts with project owners; 20-year contracts were also issued for units in newly constructed properties from 1978 through 1982. With a fiscal year 2004 appropriation of almost \$600 million, the program is RHS's largest line-item appropriation. In early 2003, RHS reported hundreds of millions of dollars in unexpended balances, primarily tied to 5- and 20-year contracts issued from 1978 through 1982. Since contracts remain active until all funds are expired, some of these contracts will likely last as long as 38 years.

To help with your oversight of the Section 521 Rental Assistance Program, you asked us to assess (1) the activity level of rental assistance contracts issued from 1978 through 1997 that have unexpended balances and the possibility of deobligating¹ these unexpended balances, and (2) the activity level of rental assistance contracts issued from 1998 through 2002 and the accuracy of RHS's estimates of the rate at which these funds would be used.

¹An agency's cancellation or downward adjustment of previously recorded obligations.

To assess the activity level of rental assistance contracts issued from 1978 through 2002, we reviewed rental assistance data from USDA's Automated Multi-Housing Accounting System (AMAS) from January 1990 through October 2003 to determine the extent of the unexpended balances. We also used these data to determine the rate at which those balances were currently being expended. We estimated when the funds will expire by applying Office of Management and Budget (OMB) inflation rates for future years to the current rates of expenditure. We acquired the OMB inflation rates for future years from the fiscal year 2004 and 2005 budgets of the President.² We assessed the accuracy of RHS's estimates of the rate at which the funds would be used for contracts issued from 1998 through 2002—and again for contracts issued from 1990 through 2003—by comparing RHS's estimated rental assistance expenditures to actual program expenditures. We determined RHS's estimated expenditures based on data provided by the agency. We determined actual program expenditures using payment data from AMAS. We conducted our work from June 2003 through February 2004 in Washington, D.C., and St. Louis in accordance with generally accepted government auditing standards.

Based on their age, contracts (both 5 and 20 year) issued from 1978 through 1997 should have expired by the end of 2002. As of June 2003, approximately 18 percent of these contracts were still active, accounting for \$605 million in unexpended balances. Most of this amount (\$510 million, or 84 percent) involved the 32 percent of the contracts from 1978 through 1982 that were still active (see appendix, slides 4 and 5). Contracts issued from 1983 through 1997 accounted for the remaining \$95 million.

In 2002, approximately \$179 million in rental assistance funds was paid to project owners from contracts issued from 1978 through 1997, \$53 million from contracts issued from 1978 through 1982, and \$126 million from contracts issued from 1983 through 1997 (see appendix, slides 6 and 7). At this rate, contracts from the 1983 to 1997 period will likely expend their remaining \$95 million during 2004. The 1978 to 1982 contracts will not expend their \$510 million in unexpended balances until 2011 on average—8 years after the last of the 20-year contracts should have expired (see appendix, slide 8).

²Table S-11: Comparison of Economic Assumptions from the Budget for Fiscal Year 2005, lists inflation rates for 2005 through 2009. For any projections for 2010 and beyond, we used the rate for 2009.

The rental assistance contracts that implement the rental assistance program explicitly tie their expiration to the disbursement of rental assistance amounts listed in the contracts. In practice, this has resulted in many of the contracts extending beyond (in some instances, far beyond) the contemplated 5- or 20-year term. According to USDA, any effort to recapture the remaining unexpended funds associated with rental assistance agreements entered into from 1978 through 1982 would result in a breach of those contracts and would subject USDA to liability.³

As of June 2003, 74 percent of the total number of contracts issued in 1998 were still active, even though RHS expected these contracts to run out during 2003, suggesting that these contracts may have been overfunded. About 25 percent, or \$114 million, of the funds remain from the 1998 contracts, and about 35 percent, or \$208 million, remain from the 1999 contracts. Furthermore, only 11 percent of the funds from the contracts issued in 2002 were spent during the contracts' first 1.5 years, suggesting that many of these contracts are expending their funds more slowly than RHS anticipated (see appendix, slide 10). Based on current spending rates, and allowing for inflation, the average contract issued during these years will likely run out of funds during its sixth year.

In fact, our analysis of rental assistance payment data showed that the agency has been overestimating its budget needs since at least 1990, the earliest year for which we gathered data. Slide 12 (see appendix) provides an example of the difference between RHS's actual and estimated expenditures from 1990 to 2003.⁴ RHS estimates are above actual expenditures in each of the years. Just as we found that contracts issued

³We will issue a separate legal opinion on this issue.

⁴The actual expenditures are averaged from the entire portfolio of 5-year contracts issued from 1989 through 2002, while the estimated expenditures are averaged from only those units for which new (including renewal) contracts originated in the corresponding year. Furthermore, the RHS-estimated expenditure for a given year shows the effect of the 5-year estimate in the first year only. Due to RHS's method for calculating its estimated expenditures over a 5-year period, the difference is largest in the first year and declines over time as inflation raises the actual expenditure (or more accurate estimation) closer to the estimated expenditure. The declining differentials of the second to fifth years are not reflected in slide 12. Nonetheless, while the estimated expenditures for any given year represent about 20 percent of the portfolio, they represent almost the entire portfolio over any 5-year period in the figure. RHS estimates are above actual expenditures in each of the years. For more discussion, see U.S. General Accounting Office, *Rural Housing Service: Standardization of Budget Estimation Processes Needed for Rental Assistance Program*, GAO 04-424 (Washington, D.C.: Mar. 25, 2004).

from 1978 through 1997 have lasted beyond their intended terms, it would appear that RHS has overestimated its budget needs over the life of the rental assistance program.

Agency Comments

We provided USDA with a draft of our report *Rural Housing Service: Standardization of Budget Estimation Processes Needed for Rental Assistance Program*, which included these two objectives, for review and comment.⁵ The Acting Undersecretary for Rural Development for USDA raised concerns about our analysis of RHS's rental assistance expenditure data. Specifically, USDA believed our finding that contracts issued from 1998 through 2002 are expected to exhaust their funds in their sixth year validates the method of budget estimating that RHS has used in recent years. While we agree that RHS's contracts are not lasting as long as they did in the past, a 6-year average contract life is still 20 percent greater than the intended contract life. USDA claimed we assert that the contracts issued from 1998 through 2003 are expending funds at a level consistent with contracts funded from 1978 through 1997. We do not make this assertion; we state that the activity of contracts issued from 1998 through 2002 is consistent with earlier years and, in particular, that RHS has overestimated its spending needs in most years since 1990.

As agreed with your office, unless you publicly announce the contents of this report, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested Members of Congress and congressional committees. We also will send copies to the Secretary of the Department of Agriculture and make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

⁵GAO-04-424 addressed three objectives, two of which are discussed here, in GAO-04-752. See GAO-04-424 for USDA's complete comments on all three objectives.

If you or your staff have any questions about this report, please contact me at (202) 512-4325, Andy Finkel at (202) 512-6765, or Katherine Trimble at (202) 512-5033. William Bates, Emily Chalmers, Jamila Jones, Austin Kelly, Marc Molino, and Julie Trinder made key contributions to this report.



William B. Shear
Director, Financial Markets
and Community Investment

Briefing to the House Committee on Financial Services



House Financial Services March 11, 2004 Briefing

RHS Has Overestimated Its Rental Assistance Budget Needs Over the Life of the Program

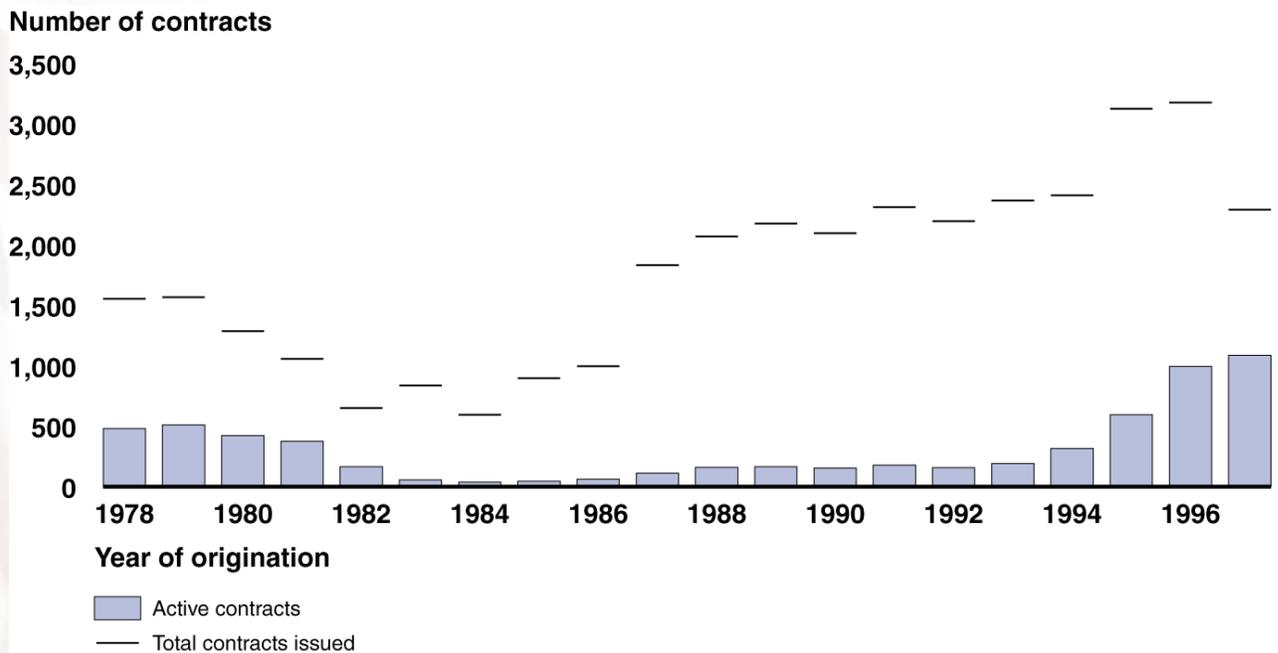


Objectives

- 1) What is activity level of rental assistance contracts issued in 1978-97 that have unexpended balances, and what is the possibility of deobligating these balances?
 - 2) What is the activity level of rental assistance contracts issued in 1998-2002, and how accurate were RHS's estimates of the rate at which these funds would be used?
-



Active vs. Expired Contracts (1978 – 1997)

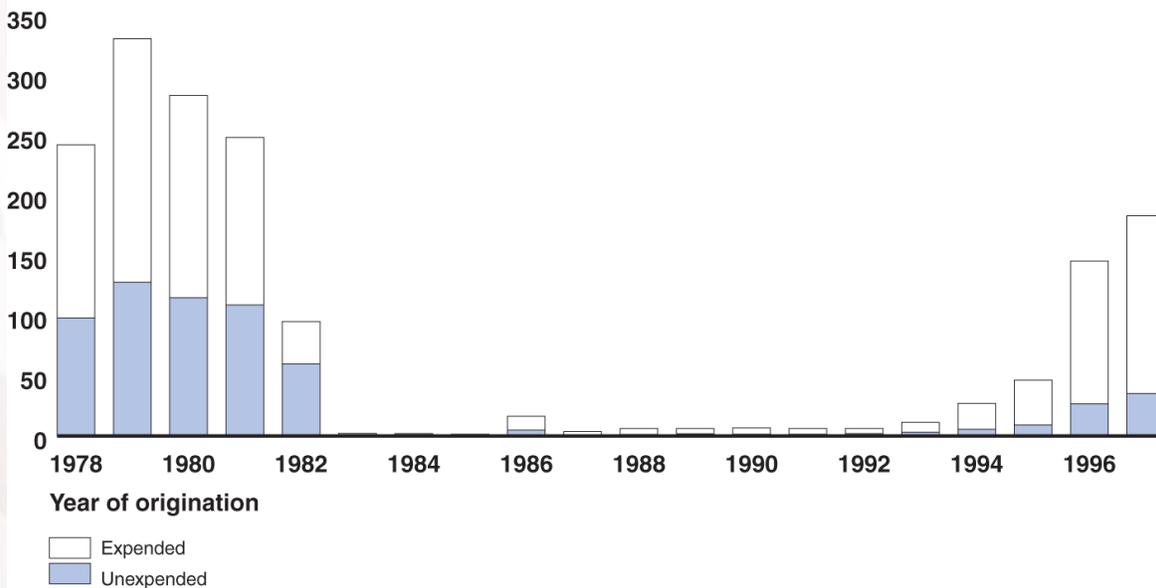


Source: GAO analysis of RHS data.



Expended vs. Unexpended Amounts (1978 – 1997)

Total dollar amount (in millions)

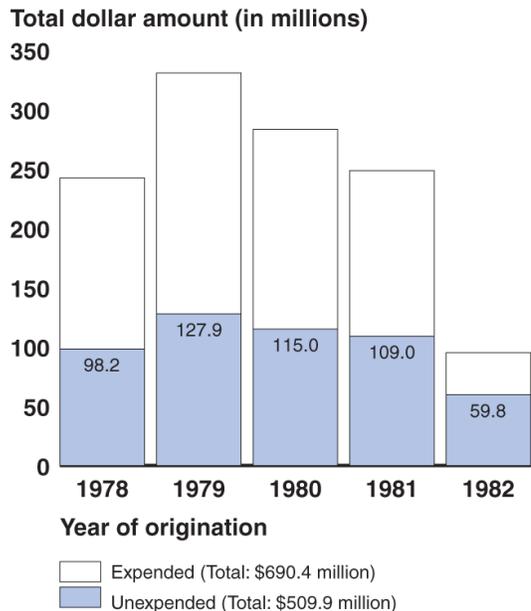
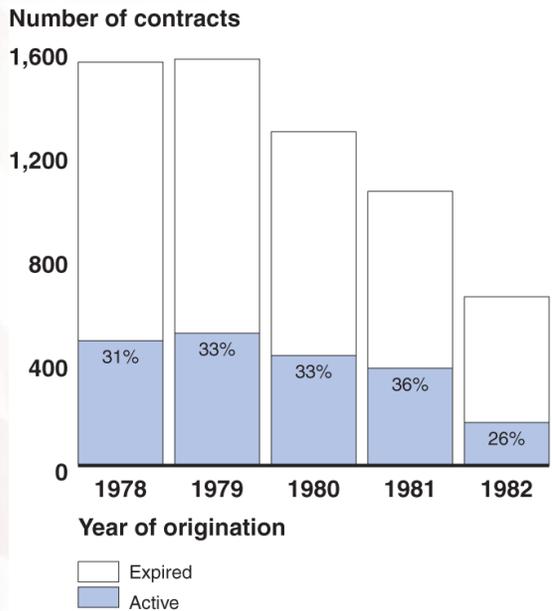


Source: GAO analysis of RHS data.



Active vs. Expired Contracts (1978 – 1982)

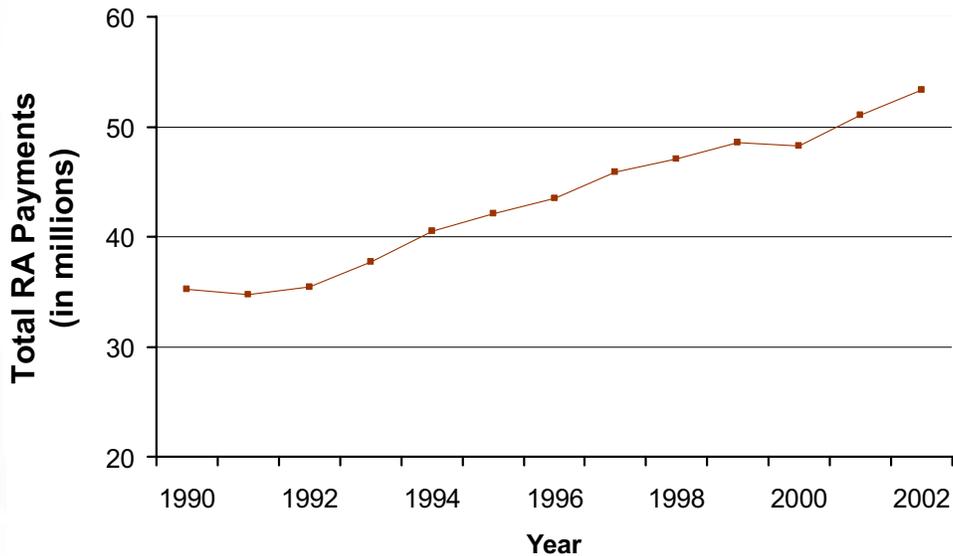
Expended vs. Unexpended Amounts (1978 – 1982)



Source: GAO analysis of RHS data.



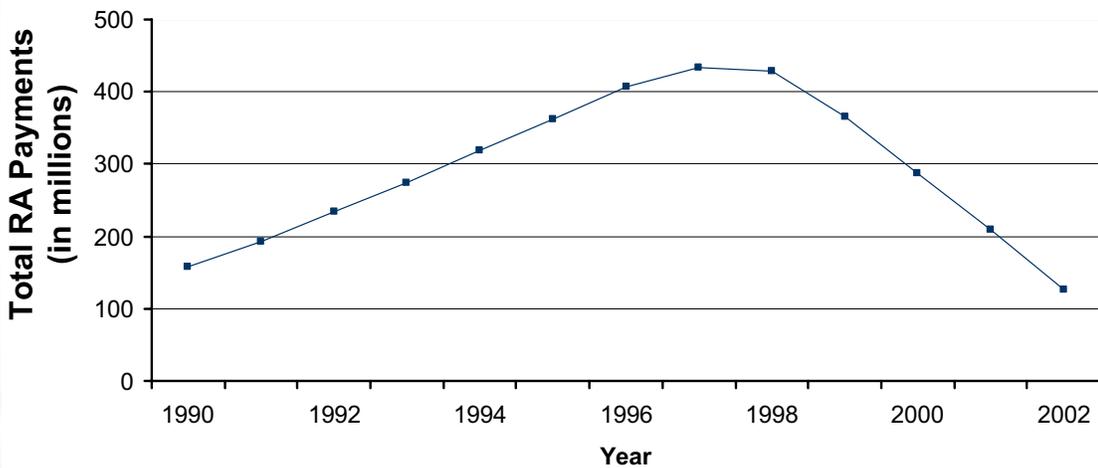
RA Payment Amounts per Year since 1990 (for contracts issued in 1978-1982)



Source: GAO analysis of RHS data.



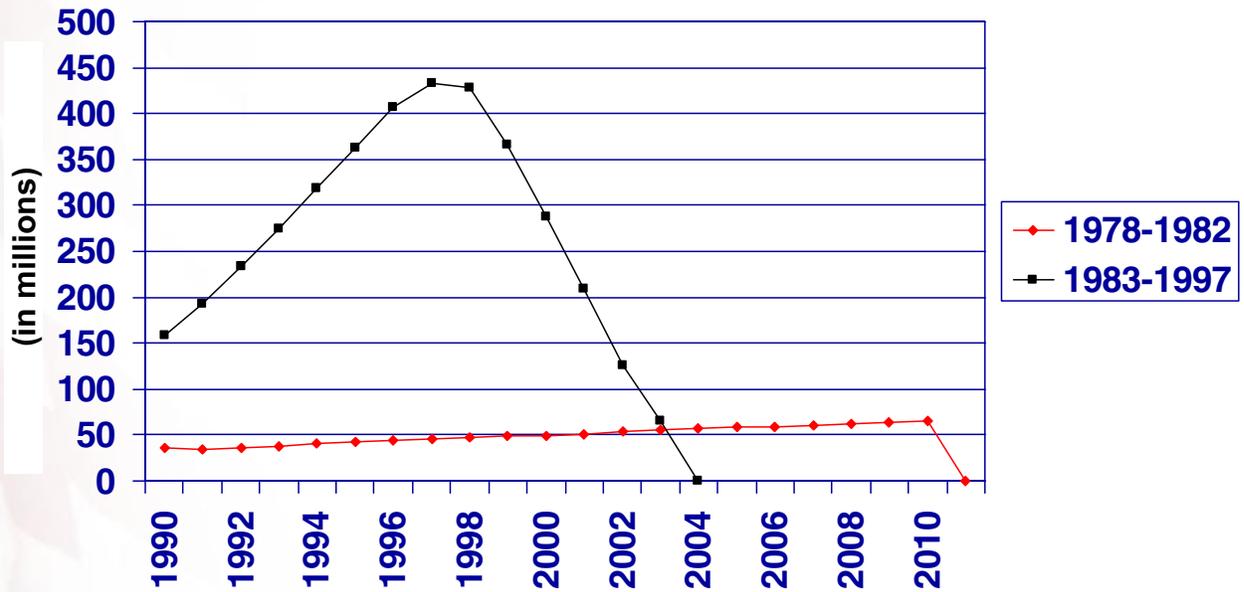
RA Payment Amounts per Year since 1990 (for contracts issued in 1983-1997)



Source: GAO analysis of RHS data.



Schedule for Unexpended Obligations, Based on Current Spending Rates (for contracts issued in 1978-1997)



Source: GAO analysis of RHS data.



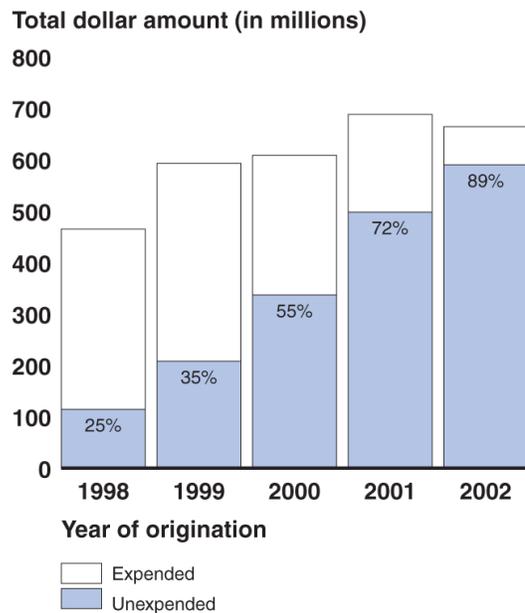
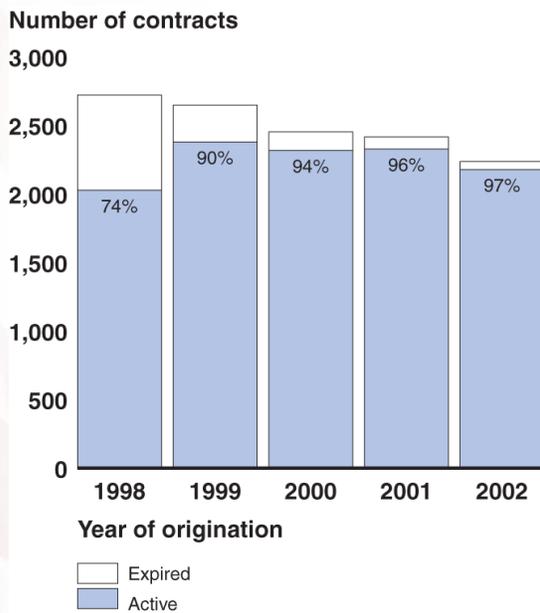
USDA Contracts Do Not Allow Unexpended Balances to be Deobligated

- USDA stated that the unexpended balances cannot be deobligated, since every rental assistance contract RHS has executed contains a provision stating that the agreement expires only when the assistance runs out.
- We will issue a separate legal opinion on this issue.



Active vs. Expired Contracts (1998 – 2002)

Expended vs. Unexpended Amounts (1998 – 2002)



Source: GAO analysis of RHS data.



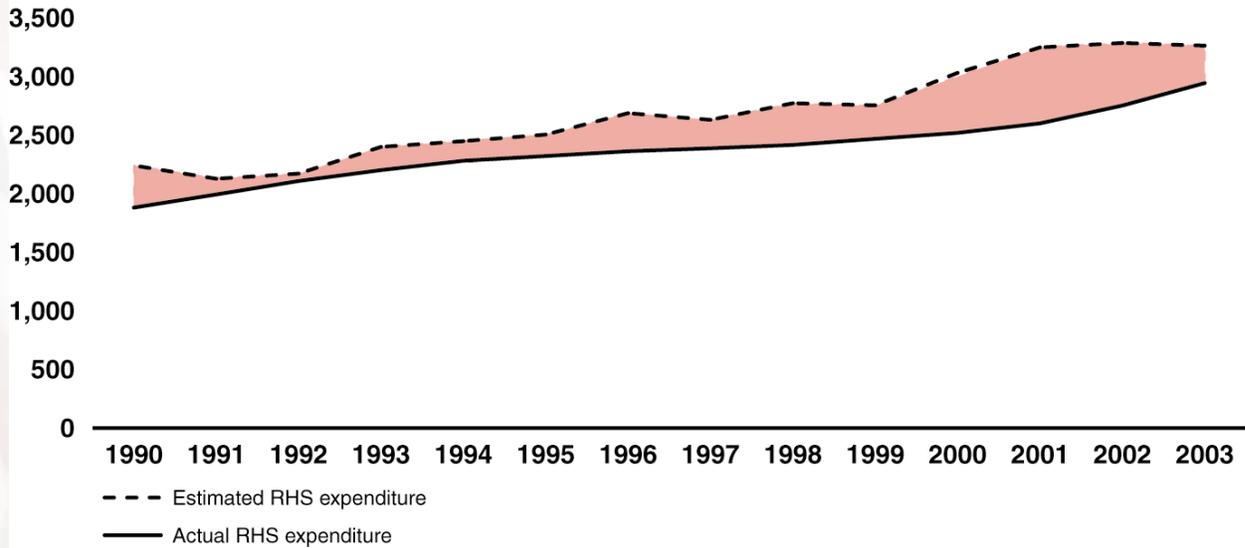
Message

- Why are contracts lasting longer than 5 years?
- RHS is overestimating its funding needs.



RHS Expenditure per RA Unit per Year (Actual vs. Estimated)

Dollar expenditure per unit per year



Source: GAO analysis of RHS data.

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