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**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON FINANCIAL SERVICES**

**ON
“SAVING TAXPAYER MONEY
THROUGH SOUND FINANCIAL MANAGEMENT”**

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“SAVING TAXPAYER MONEY THROUGH SOUND FINANCIAL MANAGEMENT”

Chairwoman Kelly, Ranking Member Gutierrez, and other distinguished Members of the House Subcommittee on Oversight and Investigations, on behalf of Secretary Mel Martinez, thank you for inviting the Department to testify on the status of unexpended balances that remain from funds that were previously appropriated by the Congress for HUD programs. I believe that HUD's leadership has worked diligently and successfully to reduce unexpended balances and to ensure that funds reach their anticipated beneficiaries as quickly as possible. After all, the benefits of Federal programs that are authorized and funded by the Congress are not realized until the funds are actually put to use providing assistance to low and moderate income families.

There are many who criticize HUD for what are perceived as very high, unexpended funds balances with large savings potential. At first glance, this is not an unreasonable criticism or reaction. As of the end of May this year, HUD had \$108 billion dollars in unexpended appropriated funds, more than three times its requested appropriation for FY 2004. However, as this testimony will demonstrate, these balances do not represent either an inability of HUD's leadership to award and obligate funds or an opportunity to recapture these funds and use them for other purposes because the program recipients no longer need the funds.

Let me begin by trying to put the total unexpended balance of \$108 billion in perspective. First, of these total balances \$34 billion has yet to be awarded and obligated by HUD. The vast majority (\$32 billion) of funds are not yet obligated because Congress only enacted the FY 2003 Appropriations Act in February and because several of HUD's programs are competitive grant programs. Given the time required to run a competition, funding for these programs are not obligated until late in each fiscal year or, like the Homeless programs, are not obligated until the next fiscal year.

This leaves a total of \$74 billion in obligated balances that have yet to spend out. I would like to break this balance into two groups of programs.

Obligated Balances for Terminated Programs

First, as many of you are aware, Congress enacted long-term low-income assistance programs in the 1970s and the 1980s, many of which no longer receive annual funding for new project activity. However, these long-term programs were either fully funded at their inception or sufficient funds were provided to obviate the need for additional appropriations for many years to come. All of these funds are obligated against the projects, have been steadily spending out for the past two decades and will continue to do so for many years to come, until 2020 in some cases.

In total, over \$34 billion in obligated funds remain for a variety of programs such as the Section 236 Interest Rate Reduction (IRP) program, Elderly Direct Loan program, Rental

Supplement and Rental Assistance Payments programs, Project-based Section 8 contracts and other smaller programs such as the Nehemiah and College Housing programs. Although many of these programs were terminated, the contracts, and therefore the obligations, have not expired and will continue to be expended over time. Of the \$34 billion, \$28 billion is obligated for Project-based Section 8 and debt service on the construction of public housing in the 1970s and early 1980s.

Should the Congress determine that these balances should be reduced and used for other purposes today, it must also be aware that future appropriations will be required to complete the contractual obligations into which the government has entered. Hence the Administration does not believe that these funds are appropriately considered “excess” and are available for recapture. However, once these contracts do expire, or for other reasons the project owner or grantee opts out or is terminated, HUD moves to recapture any funds that remain on a project.

By and large, experience has shown that recapturing funds from programs with long-term contracts can be difficult to calculate and risky. Projections of excess funds based on estimates of the remaining needs of these programs are extremely sensitive to projections of such economic dynamics as inflation and tenant income or wage rates. Even tiny changes in these variables will greatly change future estimates of need and recapturing the “excess” estimated today may lead to large additional appropriations in the future when these assumptions are not borne out and the government needs to fulfill its contractual obligations.

The one exception is the Section 236 IRP program, from which HUD recently recaptured approximately \$700 million in what were believed to be excess funds. In this instance, HUD is completing a re-evaluation of the original estimate of need throughout the remaining active life of each contract. Many of these contracts have, for example, undergone restructuring under the Mark to Market program and others have either opted out or terminated their participation in the program. The President’s budget assumes that \$300 million of those funds will be available to offset the overall costs of HUD’s programs in FY 2004. The remainder was used to fulfill Congressional mandates in FY 2002 and FY 2003.

Obligated Balances for Current Programs

What remains then is the roughly \$40 billion in obligated balances from current programs, that is, those programs that are funded annually for new award activity by the Congress. These are the balances on which HUD leadership has been working so hard to reduce. Let me explain what some of the major balances are and what we are doing to keep them to a minimum.

Section 8 Housing Vouchers. In total, the Section 8 program has about \$8 billion in obligated balances. However, of this amount, \$6 billion are obligations from FY 2002 and 2003 appropriations reflecting the fact that Public Housing Agency (PHA) recipients have different fiscal years than the Federal fiscal year and there is a lag in their receipt of

funds. These balances do not necessarily reflect a failure by PHAs to expend the funds properly since they are current year contracts that have not yet expired.

Over the past few years, HUD has moved to recapture all unused tenant-based Section 8 funds from all expired contracts, whether long-term project-based or annual tenant-based contracts. Since 1997, HUD has recaptured over \$21 billion in unused Section 8 funds and has made the funds available for both Section 8 and non-section 8 activities as determined by the Congress.

In FY 2004, the President's budget assumes that approximately \$1.4 billion in FY 2002 and prior year unused Section 8 funds will be made available to offset the costs of the program. HUD is working as hard as possible to ensure that annually it sweeps both the project based and tenant based programs and makes the funds available to offset the costs of the program. This, when combined with the Budget reforms enacted in the 2003 Appropriations Act, will ensure that future obligated balances will always be the lowest possible. This reform represents one of the most significant management improvements accomplished since the start of the Administration.

Public Housing Capital Fund. About \$4.4 billion in obligated funds for modernization remain from funds appropriated from appropriations enacted from 1997 to 2002. PHAs have four years to spend the funds once they are obligated.

HUD is working closely with the Congress to enforce new laws that now require that PHAs must spend obligated Capital funds within four years and, if not, the Congress requires that HUD recapture the funds. The Department is also authorized to provide a \$444 million bonus in FY 2003 to those PHAs that obligate and spend their Capital funds within the four year timeframe. We have already seen a dramatic drop in obligated balances, particularly for funds that are more than two years old. Since December 2001, total PHA funds not committed to specific local modernization projects have fallen from \$3.4 billion to \$700 million as of March 31, 2003, meaning that the funds are being used faster on modernization projects than ever before.

Special Populations. Currently, there are \$4.4 billion in unexpended obligations for the Elderly and Disabled Housing programs. Seeing such a large amount of funds yet to be expended may make people think that the Department is not using its funding in a timely manner. However, the majority of the funds -- about \$2.5 billion -- are associated with elderly 20-year and 5-year Project Rental Assistance Contracts (PRAC) for support of completed and occupied projects. A recent GAO report on the elderly stated that at the end of September 30, 2002, only about \$700 million represented funding for projects that remained in the construction pipeline. The \$700 million represents funds for some of the more difficult projects to bring to closure. For the most part, there are either unanticipated issues with the site, or the projects are involved in litigation. This Administration is very concerned that the funds provided for housing for the elderly and disabled are put to use as quickly as possible. We have made it a priority to clear the aged pipeline and have reduced the number of projects in that pipeline from 48 to just 7, and we expect to close on 6 of those during the remaining quarter of this year.

Community Development Block Grants (CDBG). Currently, \$9.4 billion in unexpended obligations exists for the CDBG program. This total reflects \$5.9 billion from last year's appropriation that also included special disaster supplemental funding for New York City. The remaining balance includes lesser amounts from prior year appropriations reflecting that CDBG funding of housing, infrastructure and other key program categories requires a multi-year spend-out to plan, design, construct and complete projects. Nevertheless, the Department has increased the efficiency of the program in meeting the current regulatory requirement that recipients not exceed an unexpended funding balance of 1.5 times the value of their most recent grant. In 1999, there were 309 communities that exceeded the requirement and through strict enforcement this number was dramatically reduced to fewer than 50 grantees currently, with the number expected to be reduced even further in the near term.

Conclusion

Ms. Chairwoman, I hope that I have been able to put a fresh perspective on what many believe are excessive unexpended balances in HUD programs. In the vast majority of cases, these unexpended funds are either fully committed to long-term projects and will be spending out normally for many years to come, or are obligations from relatively recent appropriations and could not reasonably be expected to have been expended at this time.

I also hope that I have been able to demonstrate that where real excess balances do exist, HUD has been aggressive in recapturing those funds and using them to offset the costs of HUD programs or for other uses specified by the Congress. In FY 2004 alone, HUD's budget assumes that over \$1.7 billion in recaptured excess balances will be used to reduce the overall budgetary requirements for the Department.

Finally, I want to emphasize that while it is important to recapture real excess funds, our ultimate goal at HUD is to ensure that our grantees or other intermediaries expend the funds as fast as possible consistent with the rules Congress has enacted so that the low income families and communities across the country can enjoy the benefits that are intended by the Congress. Hence the real success story at HUD is the tremendous effort that is going into reducing unexpended obligations through improved program performance rather than recaptures.