United States Government Accountability Office

GAO

Report to Congressional Committees

April 2007

PROJECT-BASED RENTAL ASSISTANCE

HUD Should Update Its Policies and Procedures to Keep Pace with the Changing Housing Market

GAO

Accountability * Integrity * Reliability

GAO-07-290

April 2007

PROJECT-BASED RENTAL ASSISTANCE

HUD Should Update Its Policies and Procedures to Keep Pace with the Changing Housing Market

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-07-290, a report to congressional committees

Why GAO Did This Study

In light of the pressing need for rental housing affordable to low-income households and concerns that the Department of Housing and Urban Development (HUD) may not be committed to maintaining its Section 8 project-based housing stock—a key source of such housing—Congress directed GAO to assess HUD's efforts to preserve its project-based housing and recommend ways to improve these efforts. This report discusses (1) patterns in the volume and characteristics of HUD's Section 8 project-based properties; (2) tools and incentives that are available to encourage property owners to stay in the program; and (3) the views of property owners, managers, and industry representatives on HUD's preservation efforts. To address these issues, GAO analyzed HUD data, reviewed pertinent legislation and regulations, and interviewed HUD officials and industry representatives.

What GAO Recommends

To enhance its efforts, GAO recommends that HUD modify its one-for-one replacement policy for Section 8 units and address property owners' concerns about reimbursements for operating costs in high-cost areas. HUD provided comments on a draft of this report and generally agreed with the findings and has efforts underway to address the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-290.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice Williams at (202) 512-8678 or williamso@gao.gov.

What GAO Found

GAO identified a number of patterns in the volume, characteristics, and location of HUD's project-based Section 8 housing between 2001 and 2005. During this period owners renewed 92 percent of Section 8 rental assistance contracts and 95 percent of the units covered by these contracts. While relatively few owners left the program voluntarily, most of those we interviewed did so to seek higher rents in the private market or to convert their units into condominiums. The properties most likely to leave the program were those with few Section 8 units, family-occupied units, those in poor physical condition, and those located in markets with rapidly escalating housing values.

HUD offers several incentives to keep Section 8 property owners in the program. Owners that used these incentives between 2001 and 2005 most often chose the Mark-to-Market and Mark-up-to-Market programs, both of which adjust rents to conform to prevailing market conditions. Some owners used HUD programs that offered additional financing for property rehabilitation to participants in the Section 236 mortgage reduction program and the Section 202 mortgage program for housing for the low-income elderly and persons with disabilities. HUD officials, owners, and industry representatives told us that many Section 8 owners also opted to use the Low-Income Housing Tax Credit and tax-exempt bonds, both of which the IRS administers through state housing finance agencies.

Some property owners, managers, and industry representatives cited concerns with certain HUD policies and practices, especially the one-for-one replacement policy for Section 8 units and the Operating Cost Adjustment Factors (OCAF) payment process. GAO found that the one-for-one replacement policy, which prohibits reductions in the total number of Section 8 units in a property when a contract is renewed, had led some owners to leave the program. Property owners noted that they could not reconfigure their properties to supply larger units that were in higher demand, especially by elderly tenants. Although not required by statute to adopt this policy, HUD did so in order to preserve as many units as possible but is reviewing it in light of the growing concerns. Owners also expressed frustration with the long delay in OCAF adjustments, the use of statewide averages, and the inability of the process to deal with emergency situations. Finally, owners offered several suggestions that may warrant HUD's attention, including improving the Section 8 contract renewal guidance and revisiting physical inspection guidelines.

Contents

Letter 1

Results in Brief 3
Background 7
While Most Owners Renewed Their Contracts, Patterns Were Identified Among Properties Leaving the Program 13
Mark-to-Market and Other Programs Encourage Owners to Keep Their Properties in the Section 8 Program 23
HUD Policies and Procedures Have Caused Frustration for Some Property Owners and Could Cause Others to Leave the Project-Based Section 8 Program 27
Conclusions 38
Recommendations for Executive Action 39
Agency Comments and Our Evaluation 40

Appendix I **Scope and Methodology** 42

Appendix II **Comments from the Department of Housing and Urban Development** 45

Appendix III **Number of Opt-outs by State in Identified Census Divisions** 49

Appendix IV **Number of Opt-outs by Metropolitan Area for the 3 Census Divisions with the Highest Percentage of Opt-outs** 51

Appendix V **GAO Contact and Staff Acknowledgments** 55

Tables

Table 1: Project-Based Section 8 Rental Assistance Programs with Corresponding Financing Programs 8

Table 2: Number of Section 8 Contract Renewals and Terminations, Fiscal Years 2001-2005 14

Figures

Figure 1: Section 8 Renewal and Opt-out Processes 12
Figure 2: Contract Opt-outs, Foreclosures/Enforcements, and Terminations by Subprogram, Fiscal Years 2001-2005 15
Figure 3: Total Terminated Contracts Nationwide, Fiscal Years 2001-2005 16
Figure 4: Percentage of Section 8 Properties Renewed and Terminated by the Percentage of Units Subsidized, Fiscal Years 2001-2005 18
Figure 5: Percentage of Section 8 Properties Renewed and Terminated by Type of Occupant, Fiscal Years 2001-2005 19
Figure 6: Percentage of Section 8 Properties Renewed and Terminated by Ownership Type, Fiscal Years 2001-2005 20
Figure 7: Percentage of Section 8 Properties Renewed and Terminated by REAC Scores, Fiscal Years 2001-2005 21
Figure 8: Percentage of Section 8 Properties Renewed and Terminated by Census Division, Fiscal Years 2001-2005 22
Figure 9: National and Selected State Opt-outs as a Percentage of All Active Section 8 Units, Fiscal Years 2001-2005 23
Figure 10: Factors Contributing to HUD Fatigue 29

Abbreviations

FHA	Federal Housing Administration
HUD	Department of Housing and Urban Development
IRP	Interest Reduction Payment
IRS	Internal Revenue Service
LIHTC	Low-Income Housing Tax Credit
MAHRA	Multifamily Assisted Housing Reform and Affordability Act
NAHMA	National Affordable Housing Management Association
OAHP	Office of Affordable Housing Preservation
OCAF	Operating Cost Adjustment Factors
PAE	Participating Administrative Entities
PBCA	Performance Based Contract Administrators
REAC	Real Estate Assessment Center
REMS	Real Estate Management System
TRACS	Tenant Rental Assistance Certification System

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

April 11, 2007

The Honorable Patty Murray
Chairman
The Honorable Christopher Bond
Ranking Member
Subcommittee on Transportation, Housing
and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable John W. Olver
Chairman
The Honorable Joe Knollenberg
Ranking Member
Subcommittee on Transportation, Housing
and Urban Development, and Related Agencies
Committee on Appropriations
House of Representatives

A continuing need for rental housing affordable to low-income households has prompted congressional efforts to preserve the availability of rental units subsidized by existing programs. Under the project-based Section 8 program, the Department of Housing and Urban Development (HUD) contracts with property owners that receive rental subsidies for units rented to low-income tenants.[1] These tenants pay a portion of the rent, generally 30 percent of their adjusted income, and the subsidies make up the rest. In exchange for guaranteed rent payments from HUD, owners commit to restricting their units to low-income tenants for 15 to 40 years under contracts written or renewed since the program's inception in 1974. Since then, HUD has provided rent subsidies to about 1.4 million households through approximately 24,000 project-based Section 8 housing contracts. Beginning in the late 1980s, however, these long-term contracts began to expire and some owners opted not to renew them. In response,

[1]The project-based section 8 program was authorized by the Housing and Community Development Act of 1974, Pub. L. 93-383, and comprises several subprograms that provide rental assistance.

HUD has sought ways to keep property owners in the program and preserve Section 8 housing.

Concerned that HUD was not committed to preserving the stock of existing project-based Section 8 housing and may be encouraging owners to opt out of the program or not encouraging them to stay, the Senate report accompanying the fiscal year 2006 Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act directed HUD to report on the status of the agency's efforts to preserve project-based Section 8 housing, including an analysis of contract activity from 2001 to 2005. The analysis was to include the number of units that had left the program and the number that remained, by year, state, and locality. In August 2006, HUD reported to Congress on the number of contract renewals and terminations, types of assistance offered through the preservation program, and steps taken to protect affected tenants.

In addition to requiring the HUD report, the Senate report directed us to assess HUD's efforts to preserve affordable housing and provide recommendations on how to improve these efforts. To this end, this report examines (1) patterns in the volume, characteristics, and location of HUD's project-based Section 8 properties—including those that left the program—from 2001 through 2005; (2) available tools and incentives for encouraging project-based Section 8 owners to keep their properties in the program; and (3) views of property owners, managers, and industry representatives on HUD's Section 8 housing preservation efforts and the effect of those efforts on owners' decisions to opt out or keep properties in the program.

To identify patterns in the volume and characteristics of properties from 2001 through 2005, we analyzed data extracts from HUD's Real Estate Management System (REMS) from 2001 through 2005.[2] Our analysis looked at the significance of a number of variables, such as occupancy type and subsidy level, on owners' decisions to opt out of the Section 8 program. We also reviewed a study that HUD commissioned from Econometrica, Inc., that was published in January 2006 and that compared multifamily properties leaving the project-based Section 8 program with

[2]REMS includes historical information on all properties in HUD's multifamily portfolio, including data on project-based Section 8 properties and contracts. One Section 8 property may have multiple contracts.

multifamily properties remaining in it.[3] In addition, we monitored the progress of HUD's analysis of terminated project-based Section 8 housing units and those retained over a 5–year period and compared HUD's results with our analysis. To determine what tools and incentives HUD used to preserve project-based Section 8 properties, we reviewed and summarized legislation and regulations pertaining to project-based Section 8 housing preservation, documented HUD requirements, and conducted interviews with HUD headquarters and selected field office staff, nonprofit organizations, contractors, state and local government agencies, and lenders. To obtain the views of owners, managers, and industry representatives on HUD's preservation efforts, we conducted standardized interviews with both for-profit and nonprofit owners of Section 8 properties, housing industry organizations, state housing finance agencies, and other stakeholders in five localities.[4] We judgmentally selected these locations based on the following characteristics: (1) percentage of units that opted out of the project-based Section 8 program from 2001 through 2005, (2) vacancy rates, (3) geographic location, (4) percentage of households with worst-case housing needs, and (5) HUD regional and field office program performance. We conducted our work between October 2005 and April 2007 in Baltimore, Chicago, Columbus, Houston, Los Angeles, New York, and Washington, D.C., in accordance with generally accepted government auditing standards. Appendix I provides additional details on our scope and methodology.

Results in Brief

Using data on the project-based Section 8 housing program from 2001 through 2005, we were able to identify patterns in the volume, characteristics, and locations of contract renewals and terminations, including contracts that property owners chose not to renew (opt-outs) from 2001 through 2005.[5] Among other things:

- The majority of project-based Section 8 housing owners chose to stay in the program. A total of 13,218 project-based Section 8 contracts (931,570 units) were renewed from 2001 through 2005, or 92 percent of the

[3]Econometrica, Inc., *Multifamily Properties: Opting In, Opting Out and Remaining Affordable*, HUD Contract no. GS-10F-0269K (Washington, D.C.: January 2006).

[4]Housing Finance Agencies are state-chartered authorities established to help meet the affordable housing needs of residents of their states. They serve as lenders and resource providers.

[5]Terminations include opt outs, foreclosures, and enforcements.

contracts during the review period and 95 percent of the units covered by these contracts.[6] Conversely, 8 percent or 1,155 contracts (covering 51,131 units) were terminated—6 percent because owners opted out of the program and 2 percent because HUD foreclosed on the properties from 2001 through 2005. Terminations decreased from 240 contracts (covering 10,020 units) in 2001 to 160 contracts (covering 6,001 units) in 2005.

- Our discussions with property owners, managers, and industry representatives in five metropolitan areas indicated that market conditions were the primary factors in owners' decisions to leave or remain in the project-based Section 8 program and that HUD did not encourage owners to opt out of the program. In many cases, owners opted out to seek higher rents or to convert their units to condominiums in thriving housing markets such as Los Angeles and Manhattan.

- We identified a number of key characteristics of properties that left the project-based Section 8 housing program. We found that more properties that had been rented to families left the program than properties that had been rented to individuals such as the elderly and persons with disabilities. Nonprofit owners, whose mission is to provide affordable housing, were more likely to renew their contracts, as were Section 202 owners whose mortgages require that they serve low-income elderly and persons with disabilities for up to 40 years.[7] We also found that a number of properties remained at risk of leaving the program because they had failed HUD's inspections. Finally, the number of contract renewals and opt-outs varied by geographic location. The largest percentage of opt-outs occurred in several midwestern states—Illinois, Indiana, Michigan, Ohio, and Wisconsin—-the southern Atlantic (including Maryland, West Virginia, and the District of Columbia), and the Pacific coast (including Alaska and Hawaii). They were generally concentrated in large metropolitan areas.

HUD offers a number of tools and incentives to property owners seeking additional funding to support their Section 8 properties. Owners that did use incentives primarily chose the Mark-to-Market program, under which Section 8 owners with above-market rents receive additional assistance

[6]These numbers reflect all contracts that were processed for renewal during fiscal year 2001-2005 and were still active at the end of the reporting period. They cover contracts that had been renewed prior to fiscal year 2001, but were renewed again from 2001 through 2005, as well as contracts that expired for the first time during this period.

[7]Prior to 1991, the Section 202 program provided direct loans at below-market rates for up to 40 years to finance the construction of rental housing for low-income elderly and persons with disabilities.

from HUD in exchange for reducing rents, and the Mark-up-to-Market program, which adjust rents to prevailing market conditions while maintaining affordability for low-income households. These tools have been effective in preserving some Section 8 projects, but they apply to only a portion of the project-based Section 8 housing stock. Owners have used other HUD programs to maintain project-based Section 8 housing to a lesser extent. For example, these programs allow those project-based Section 8 owners that previously had participated in the Section 236 program, which effectively reduces the mortgage interest to 1 percent, and the Section 202 program for the construction of elderly housing, to obtain additional financing for Section 8 property rehabilitation. Program officials and others whom we interviewed said that to supplement HUD's tools, nonprofits and housing industry representatives also encouraged Section 8 owners to obtain funds through programs outside of HUD, such as the Low-Income Housing Tax Credit (LIHTC) program and tax-exempt bonds. HUD officials told us that they did not consistently collect data on Section 8 properties that had used tax credits or tax-exempt bond financing.

Section 8 owners, property managers, and industry representatives we interviewed indicated that owners generally did not opt out of the project-based Section 8 program because of dissatisfaction with HUD's preservation efforts but because of market factors. Many owners said they remained in the program because they wanted the guaranteed income, and others—primarily nonprofit organizations—said they remained because their mission was to preserve affordable housing. However, some property owners, managers, and industry representatives expressed frustration with some of HUD's polices and practices, which they said could drive some property owners out of the program. Specifically, managers and owners expressed concern with HUD's lack of flexibility in policies such as the one-for-one replacement requirement, which prohibits reductions in the total number of Section 8 units in a property. While not mandated by statute, HUD adopted this policy in an attempt to maximize the number of units remaining in the program. Under this policy, HUD does not allow owners to reduce the number of Section 8 units when a contract is renewed. For example, HUD does not allow owners to reconfigure efficiency apartments into fewer one-bedroom units, even when market studies show great demand for such units. We identified a Chicago owner who chose to remove an 82-unit property from the program because HUD would not renew a contract with 3 fewer units. In addition, owners and managers indicated that some HUD practices and policies could cause financial distress. In particular, owners and managers expressed frustration with HUD's Operating Cost Adjustment Factors (OCAF), an annual inflation adjustment that reflects changes in operating expenses such as insurance and utilities. These owners and managers said that OCAF did not take into account cost differences across regions, was often out of date by the time it was applied, and did not respond to emergency situations. Owners and managers also identified some HUD policies and practices that they said lacked clarity, were not consistently applied, or were administratively burdensome and could weigh on owners' decisions to stay in or opt out of the program when their project-based contracts expired. For example, some property managers and owners told us that they needed full-time staff to manage project-based Section 8 administrative requirements, an expense that was particularly burdensome for owners with few section 8 units. HUD officials told us that they were currently reviewing the one-for-one replacement policy for elderly housing and the OCAF adjustment process to take into account emergency situations and rapid increases in utilities, insurance, and property taxes in some areas.

To help ensure that affordable housing is provided to those persons in need and to keep pace with the changing housing market, we are recommending that HUD (1) expedite its reconsideration of the one-for-one replacement requirement for project-based Section 8 housing and broaden its consideration to all project-based Section 8 housing properties on a case-by-case basis; and (2) address concerns about the need for more timely and better-targeted OCAF reimbursements. We are also recommending that HUD determine whether any of the other issues raised by owners, such as unclear and burdensome policies and procedures and inconsistent application of policies, are contributing to owners' decisions to opt out of the Section 8 program and that the agency take steps to address these issues as appropriate.

We received comments on a draft of this report from HUD's Assistant Secretary for Housing—-Federal Housing Commissioner (appendix II). The Commissioner generally agreed with the report findings, which were consistent with the findings of HUD's report to Congress. He also noted that it confirmed that HUD was using a variety of tools to encourage continued participation in the project-based Section 8 program. Further, he said that the agency was already taking steps that begin to address two of our recommendations: (1) modify the one-for-one replacement policy to allow some reduction or reconfiguration of existing units when appropriate, and (2) evaluating the OCAF adjustment process and plan to complete and announce the results by the end of fiscal year 2007. Finally, he said that HUD officials were aware of concerns raised by property owners that we cited and that the agency was always willing to consider recommendations that could reduce administrative costs and encourage owners to stay in the program.

Background

The Housing and Community Development Act of 1974, a major overhaul of housing laws, created the tenant-based and project-based Section 8 rental assistance programs for low-income households. The tenant-based program (now called Housing Choice Vouchers) provides rental assistance to eligible households to rent houses or apartments in the private market from landlords who are willing to accept the vouchers. Under the project-based rental assistance program, HUD enters into contracts with property owners to provide rental assistance for a fixed period of time.

The project-based Section 8 program has multiple subprograms, including Section 8 New Construction and Substantial Rehabilitation, Loan Management Set-Asides, Preservation, and Property Disposition.[8] Rental assistance under these project-based Section 8 subprograms has been generally used in conjunction with other public funding. For example, a Section 8 New Construction/Substantial Rehabilitation property could have been financed by a Federal Housing Administration (FHA) insured loan, a Section 202 direct loan, a U.S. Department of Agriculture Section 515 direct loan, or state housing finance agency bonds. Some of these programs provided financing for the construction or rehabilitation of affordable rental housing prior to the 1974 Act. (See table 1).

[8]In 1978, a moderate rehabilitation portion of the Section 8 program was added but has not been funded since 1989. The authorization for the new construction and substantial rehabilitation components of the Housing and Community Development Act of 1974 were repealed in 1983.

Table 1: Project-Based Section 8 Rental Assistance Programs with Corresponding Financing Programs

Rental Assistance Program	Description
Section 8 New Construction and Substantial Rehabilitation	Provides rent subsidies in new or substantially rehabilitated projects. Subsidy initially covered the difference between tenants' payment and fair market rent, as determined by HUD. Subsidy contracts were for 20 to 40 years. Tax incentives and financing arrangements also reduced owners' effective mortgage interest rates and project rents. No new contracts have been issued since the 1990s, and only existing contracts have been renewed.
Section 8 Loan Management Set-Aside	HUD contracts with owners of HUD-insured multifamily or HUD-held housing projects experiencing financial problems. The program seeks to minimize defaults on HUD-insured multifamily rental projects by ensuring a reliable income stream. Families receive a rental subsidy equal to the difference between their share of the rent and the rent charged by the owners, which was not to exceed applicable fair market rents.
Section 8 Property Disposition	HUD forecloses on subsidized properties with HUD-held multifamily mortgages for properties with project-based Section 8 or sells HUD-owned multifamily properties with project-based Section 8 assistance.
Section 8 Preservation	This program assists multifamily properties by providing project-based Section 8 subsidies to a property in order to preserve its low-income status. There are no new contracts for this program.
Financing Program	
FHA Insurance	The FHA Multi-Family Mortgage Insurance program enhances credit for rental housing developments through the provision of federal loan guarantees. These guarantees provide a financing option in addition to those available in the private conventional market. FHA provides mortgage insurance for multifamily housing, supporting the construction of new apartment projects, and the refinancing of older ones.
Section 202 Elderly and Disabled Housing Direct Loan Program	Provides direct loans at below-market rates for up to 40 years to finance the construction of rental housing for low-income elderly and disabled households. Projects built between1974 and 1991 also receive project-based Section 8 rent subsidies. The program is no longer active, although projects developed under it continue to operate. In 1990, the program was restructured to provide capital advances for the development of elderly housing under Section 202, and a Section 811 capital advance program was implemented to develop housing for persons with disabilities. Both 202 and 811 projects receive operating assistance through Project Rental Assistance Contracts.
Section 515	USDA's Rural Housing Service Section 515 program began in the early 1960s. At that time, loans were generally made for 40 years, but borrowers were encouraged to refinance their properties in the private market and to prepay their loans. The program provides direct loans to developers at a 1 percent interest rate. Supplementary rental assistance is provided to approximately half of the units through USDA, while some units also receive rental assistance through the Section 8 programs. After 1989, loans were precluded from prepayments, and loans that were made before that date were restricted.
Housing Finance Development Authority	Projects financed by state Housing Finance Agencies (HFAs) through mortgage revenue or multifamily housing bonds.

Source: GAO.

Project-based Section 8 assistance may be provided only for tenants with incomes no greater than 80 percent of an area's median income. Tenants generally pay rent equal to 30 percent of adjusted household income. As part of the Section 8 contract, property owners and managers are responsible for ensuring that households meet program eligibility requirements and calculating households' payments. HUD pays rent subsidies directly to the property owners but does not pay them a separate administrative fee. The owners' include their administrative costs in their HUD-approved rents.

Project-based Section 8 properties are subject to physical and management reviews. Most Section 8 contracts also require the submission of annual financial reports from property owners. These reviews and reports are to ensure management accountability and the physical condition of public and assisted housing. HUD's Real Estate Assessment Center (REAC) conducts physical inspections of all HUD multifamily properties every 1 to 3 years, depending on the property's previous physical inspection score. Project-based Section 8 properties are subject to annual management and occupancy reviews to verify compliance with the terms of the project-based Section 8 contracts, regulatory and management agreements, and management plans.

In the mid- to late-1990s, Congress and HUD made several important changes to the duration of housing assistance contracts, contract rents, and management of on-going contracts.

- In the mid-1990s because of budgetary constraints HUD shortened the terms of subsequent renewals after the initial 15- to 40-year terms began expiring. HUD generally reduced the contract renewal terms to 1 or 5 years, with the funding renewed annually subject to appropriations.
- In 1997, Congress passed the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) to ensure that the rents HUD subsidized remained comparable with market rents. Over the course of the initial contracts with owners, contract rents in some cases had begun to substantially exceed local market rents as market conditions changed. MAHRA generally requires an assessment of each property when it nears the end of its original contract term to determine whether the contract rents are comparable to current market rents and whether the property has sufficient cash flow to meet its debt and daily and long-term operating expenses. However, certain projects are exempt from the market comparability requirement (e.g., projects financed by state agency bonds). If the contract rents are higher than market rents, HUD can decrease the contract rents to market rents upon renewal. Conversely, if the expiring contract rents are below market rates, HUD may increase the contract rents to market rates upon renewal.

- In 1999, because of staffing constraints (primarily in HUD's field offices) and the workload involved in renewing the increasing numbers of rental assistance contracts reaching the end of their initial terms, HUD began an initiative to contract out the oversight and administration of most of its project-based contracts. The entities that HUD hired—typically public housing authorities or state housing finance agencies—are responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; reviewing, processing, and paying monthly vouchers submitted by owners; renewing contracts with property owners; and responding to health and safety issues at the properties. These performance-based contract administrators (PBCA) now administer the majority of project-based Section 8 contracts.

In the late 1980s, initial Section 8 contracts began expiring; by 2003, all of the original 20-year contracts had expired. Forty-year contracts will expire between 2014 and 2023. Section 8 owners are offered six options upon contract expiration. According to the HUD Section 8 Renewal Guide, Section 8 owners may[9]

- renew without any modifications, with rents capped at HUD's market levels;
- renew with rents that are elevated to market rents through the Mark-up-to-Market program;
- renew with rents that are reduced to market rents through the Mark-to-Market program;
- renew as a Section 8 "exception project;"[10]

[9]The Section 8 Renewal Guide provides comprehensive guidance for renewing expiring project-based Section 8 contracts.

[10]In general, Section 8 exception projects are those projects with project-based Section 8 rental assistance, but without FHA mortgage insurance. Owners of exception projects may maintain above-market rents if justified on a cost basis.

- renew as a Section 8 preservation or portfolio reengineering demonstration projects;[11] and

- opt out of the Section 8 contract.

When their contract expires, project-based Section 8 owners may decide not to renew their Section 8 contracts and convert their units from affordable housing to market rents. Once owners remove their properties from HUD programs, Section 8 households receive enhanced vouchers as long as they remain in their units.[12]

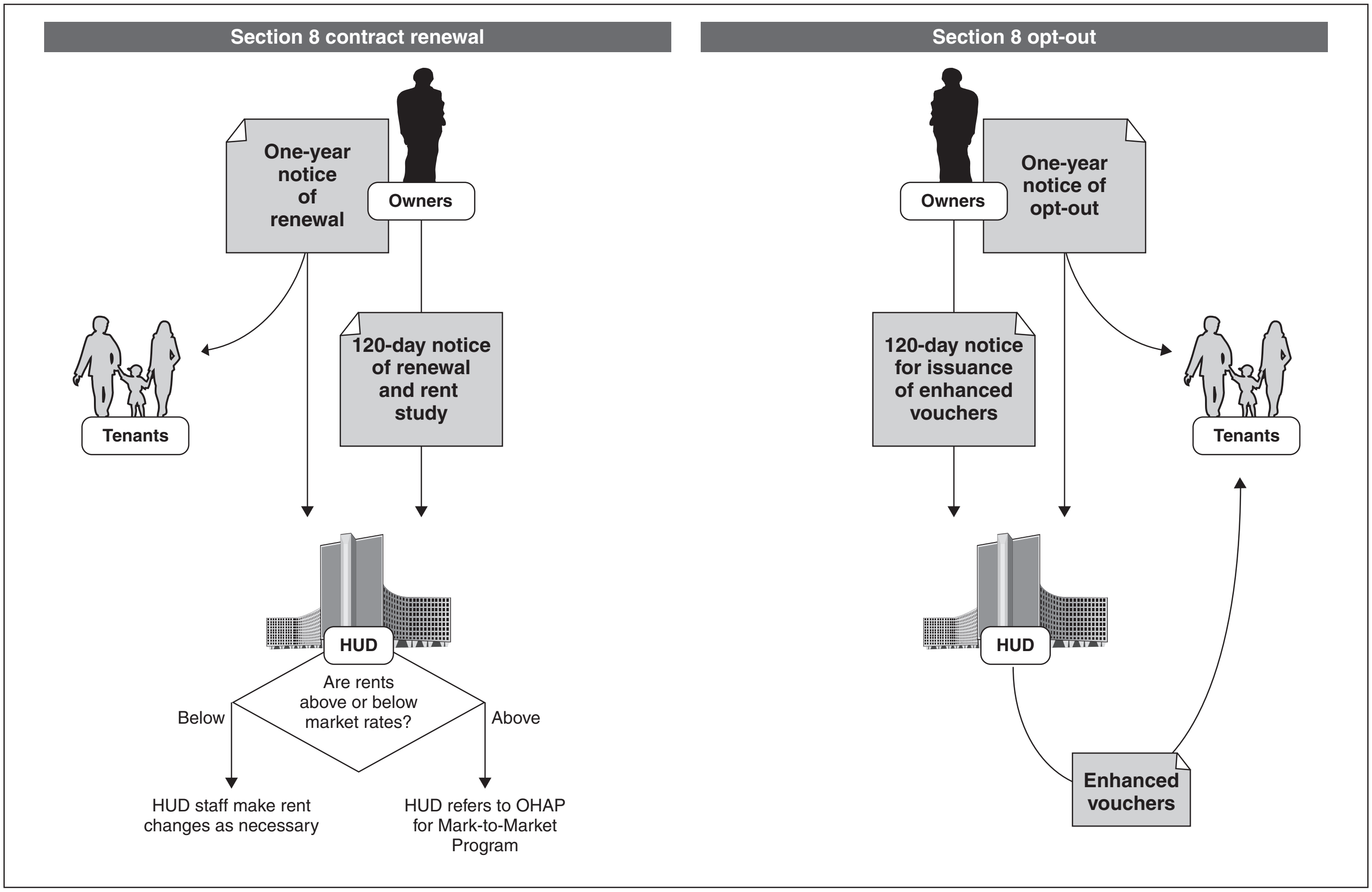
Owners are required to give both tenants and HUD notice of their intention to renew or opt out 1 year before the Section 8 contract's expiration (see fig. 1). An owner who intends to opt out must also provide HUD with a 120-day notification. An owner who intends to renew is required to submit to HUD or the PBCA a request for contract renewal and a rent comparability study (when required) at least 120 days before the contract expires. Local HUD offices review the study to determine if the property's current rents are at, above, or below market rates. If rents are at or below market rates, HUD field office staff will make any necessary adjustments and execute a new Section 8 contract. If rents are above market, HUD staff renews the contract (at above-market rents) for up to 1 year and forward the owner's submission to the HUD Office of Affordable Housing Preservation (OAHP) for a Mark-to-Market restructuring. OAHP assigns properties to participating administrative entities (PAE) to carry out restructurings under the Mark-to-Market program on behalf of HUD.[13] The owner then signs a renewal contract with the contract administrator.

[11] Preservation projects are those projects maintained as affordable housing under the Emergency Low Income Housing Preservation Act of 1987 (ELIPHRA) and the Low Income Housing Preservation and Resident Home Ownership Act of 1990 (LIHPRA). The Portfolio Reengineering Demonstration program was the predecessor to the Mark-to-Market program.

[12] To protect Section 8 households from rent increases that may result when owners opt out of their contracts or prepay their subsidized mortgages, HUD provides a special type of tenant protection voucher known as an enhanced voucher. Rents are set at market comparable levels, instead of the regular voucher payment standard. A tenant with an enhanced voucher is entitled to remain in his unit as long as the property remains a rental property, provided the rent is reasonable.

[13] The PAE is responsible for structuring Mark-to-Market transactions, under contract with HUD. PAEs may be public or private entities or joint ventures.

Figure 1: Section 8 Renewal and Opt-out Processes



Sources: GAO; Art Explosion (images).

Note: Exception projects are not subject to market comparability rent study and are not referred to OAHP.

In a January 2004 report, we found that state and local agencies offer incentives to preserve affordable housing, including project-based Section 8 housing. Some of these agencies perceived that the information on opt-outs was not readily available. In this report, we recommended that HUD make this information more widely available and useful.[14]

[14]See GAO, *Multifamily Housing: More Accessible Data Could Help Efforts to Preserve Housing for Low Income Tenants*, GAO-04-20, (Washington, D.C.: Jan. 23, 2004).

States and localities may use funds provided by other federal programs to subsidize housing for low-income tenants. The HOME program, authorized by the Cranston-Gonzalez National Affordable Housing Act, is the primary block grant program that state and local governments use to develop affordable housing. Under the Low-Income Housing Tax Credit (LIHTC) Program, authorized by the Tax Reform Act of 1986, state housing finance agencies provide federal tax incentives to private investors to develop housing affordable to low-income tenants. Some states and localities have established housing trust funds and other financial mechanisms that have helped organizations acquire HUD properties and maintain their affordability to low-income tenants when owners want to sell properties and exit the program.

Federal housing programs serve many different types of households and provide units that are affordable at different income levels. For example, under the LIHTC program, either 20 percent of units must be affordable to households with incomes of less than 50 percent of area median household income, or 40 percent of units must be affordable to households earning incomes less than 60 percent of the area median income. HUD pays assistance for project-based Section 8 units on behalf of tenants with incomes no greater than 80 percent of area median income. Further, the states and localities may use other tools and incentives, such as offering property tax relief, to encourage owners to keep serving low-income tenants.

While Most Owners Renewed Their Contracts, Patterns Were Identified Among Properties Leaving the Program

We found a number of patterns in the volume, characteristics, and locations of HUD's project-based Section 8 housing contract renewals and terminations, from 2001 through 2005. First, from 2001 through 2005, 92 percent of project-based Section 8 housing assistance contracts and 95 percent of assisted units that were eligible for renewal were renewed. We also found that the percentages of opt-outs, foreclosures, and enforcements varied by project-based Section 8 subprogram. Relatively few owners opted out of the Section 8 program, and of those we interviewed, most reported that they did so to seek higher rents in the private rental market or to convert their units into condominiums. Second, we found that opt-outs shared other characteristics, such as property size and physical condition. Finally, opt-outs were more prevalent in some regions and localities.

Few Project-based Section 8 Owners Opted Out of the Program, and Opt-Outs Varied by Subprogram

From 2001 through 2005, 14,373 of the 24,000 project-based contracts and 982,701 of the 1.4 million units were determined to be eligible for renewal or termination. Of these, 92 percent of the eligible contracts and 95 percent of the eligible units remained in the program (table 2).

Table 2: Number of Section 8 Contract Renewals and Terminations, Fiscal Years 2001-2005

	Contracts		Units	
Action	**Number**	**Percent**	**Number**	**Percent**
Renewal	13,218	92	931,570	95
Termination	1,155	8	51,131	5
Total	**14,373**	**100**	**982,701**	**100**

Source: HUD.

Note: The contracts included in the analysis are those that had either renewal or termination activity during fiscal years 2001 through 2005. These do not represent all Section 8 contracts.

The percentage of opt-outs while small overall, varied by subprogram. As shown in figure 2, only 1 percent of project-based Section 8 contracts whose owners financed the properties through the Section 202 program opted out from 2001 through 2005. This percentage is generally low largely because Section 202 property owners are nonprofit entities established for the singular purpose of providing housing for the elderly or persons with disabilities, and because the statute requires low income use at least through the original term of the loan. As a result, it is in the owners' interest to renew their project-based Section 8 contracts.[15] Similarly, Section 8 contracts that also carry a U.S. Department of Agriculture Section 515 mortgage had a much lower percentage of opt-outs (3 percent), in part due to mortgage prepayment restrictions. Conversely, contracts listed under Property Disposition, which are troubled properties, had the highest percentage of opt-outs, foreclosures, and enforcements. In total, of the 8 percent of contract terminations, 6 percent were due to opt-outs and 2 percent were due to contract foreclosures and enforcements.

[15]The American Homeownership and Economic Opportunity Act of 2000 (Pub. L. 106-569; 12 U.S.C.1701q note) provides the authority for HUD to allow higher than market Section 8 rents in connection with the refinancing of the underlying Section 202 mortgage. According to HUD officials, this act has improved the program's operations, including better meeting the long-term needs of the elderly and people with disabilities served.

Figure 2: Contract Opt-outs, Foreclosures/Enforcements, and Terminations by Subprogram, Fiscal Years 2001-2005

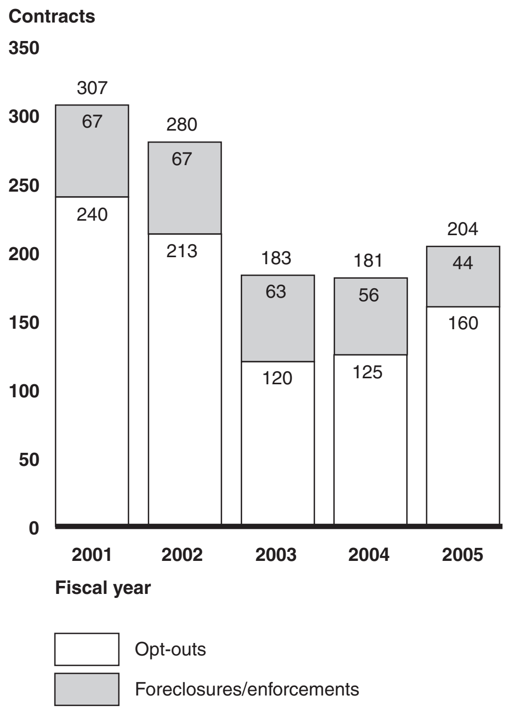
		Percentage of those eligible		
Subprogram	Contracts	Opt-outs +	Foreclosures/Enforcements =	Terminations
Preservation	422	0.9 %	0.2 %	1.2 %
Section 202 with Section 8	2,408	1.0	0.9	1.8
Section 515 with Section 8	1,480	3.0	0.3	3.4
Housing Finance Development Authority with Section 8	725	4.7	2.2	6.9
Loan Management Set-Aside	4,528	6.8	3.1	9.9
FHA Insured with Section 8	4,353	9.1	2.1	11.2
Property Disposition	450	10.4	5.6	16.0
Other	7	0.0	0.0	0.0
Total	**14,373**	**6.0 %**	**2.1 %**	**8.0 %**

Source: GAO.

Note: Percentage of opt-outs and foreclosures/enforcements may not exactly equal percentage of terminations due to rounding.

As shown in figure 3, the total number of project-based Section 8 contract opt-outs nationwide declined from 240 in 2001 to 120 in 2003, but increased slightly in 2004 to 125 and increased further in 2005 to 160. Conversely, the number of foreclosures and enforcements has continued to decline slightly over the period.

Figure 3: Total Terminated Contracts Nationwide, Fiscal Years 2001-2005



Source: 2006 HUD Report to Congress.

Properties Leaving the Program Shared Similar Characteristics

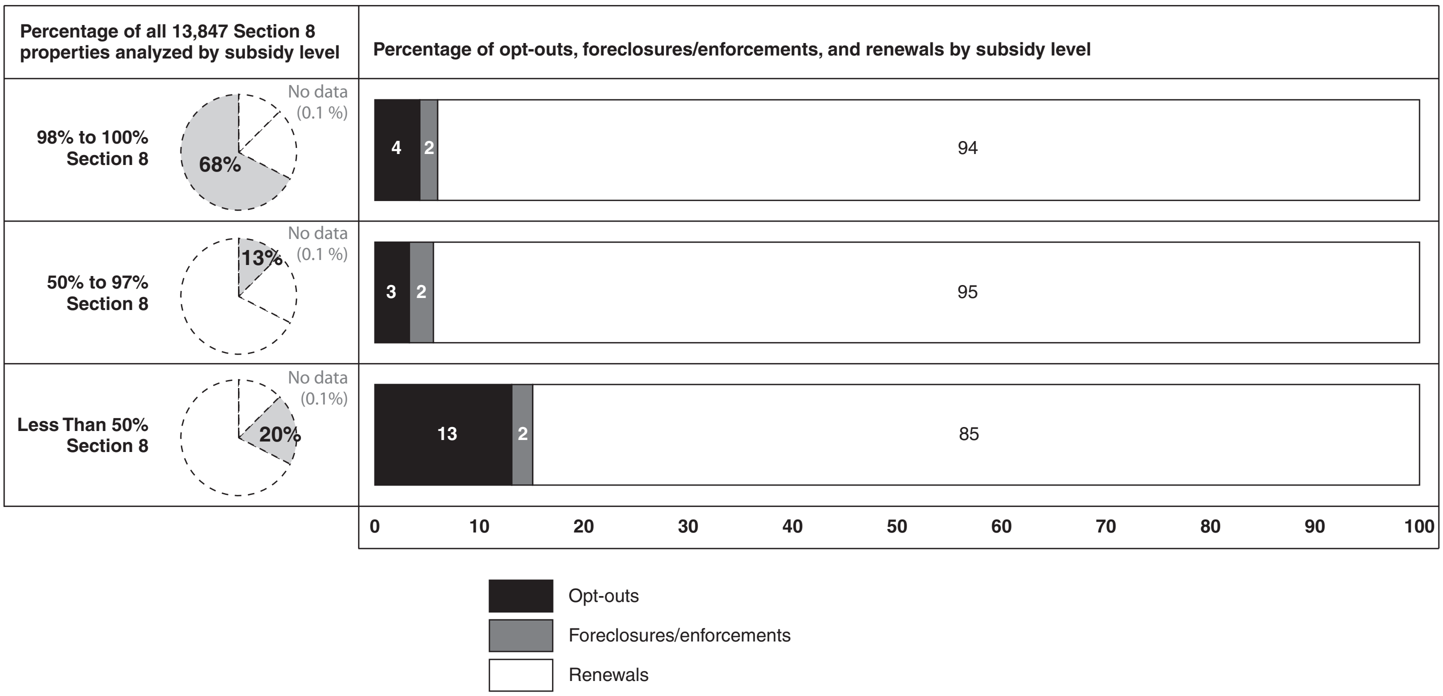
The properties that owners withdrew from the program shared similar characteristics. Specifically, owners with properties that were generally not fully subsidized by the program, were family occupied, were for profit, or were in poor physical condition had a higher percentage of opt-outs. Conversely, we did not find substantial differences in the percentage of opt-outs based on property size, meaning owners with fewer units were as likely to opt out as owners with more units.

Partially Subsidized Properties Had a Higher Percentage of Opt-Outs

Properties that were only partially supported by the Section 8 program comprised 4,492, or 33 percent, of the total 13,847 Section 8 properties that renewed or terminated their contracts from 2001 through 2005.[16] As shown in figure 4, about 13 percent of those properties with a less than 50 percent Section 8 subsidy level that were eligible to opt out during the 5-year period from 2001 through 2005 did so, compared with about 4 percent of the properties that were fully supported by the Section 8 program. Owners with properties with subsidy levels between 50 and 97 percent were as likely to remain in the program as those that were fully supported. These results were consistent with the views of owners about their desire to continue receiving guaranteed payments that Section 8 provides. About 2 percent of all partially and nearly fully subsidized properties were terminated through foreclosures or enforcements actions.

[16]Although HUD's analysis deals strictly with contracts, the remainder of this report section focuses on the 13,847 properties covered by the 14,373 contracts analyzed in the previous section because, from a policy perspective, property counts serve as a better indication of the supply of available housing for low-income tenants because a single property can have multiple contracts.

Figure 4: Percentage of Section 8 Properties Renewed and Terminated by the Percentage of Units Subsidized, Fiscal Years 2001-2005



Source: GAO.

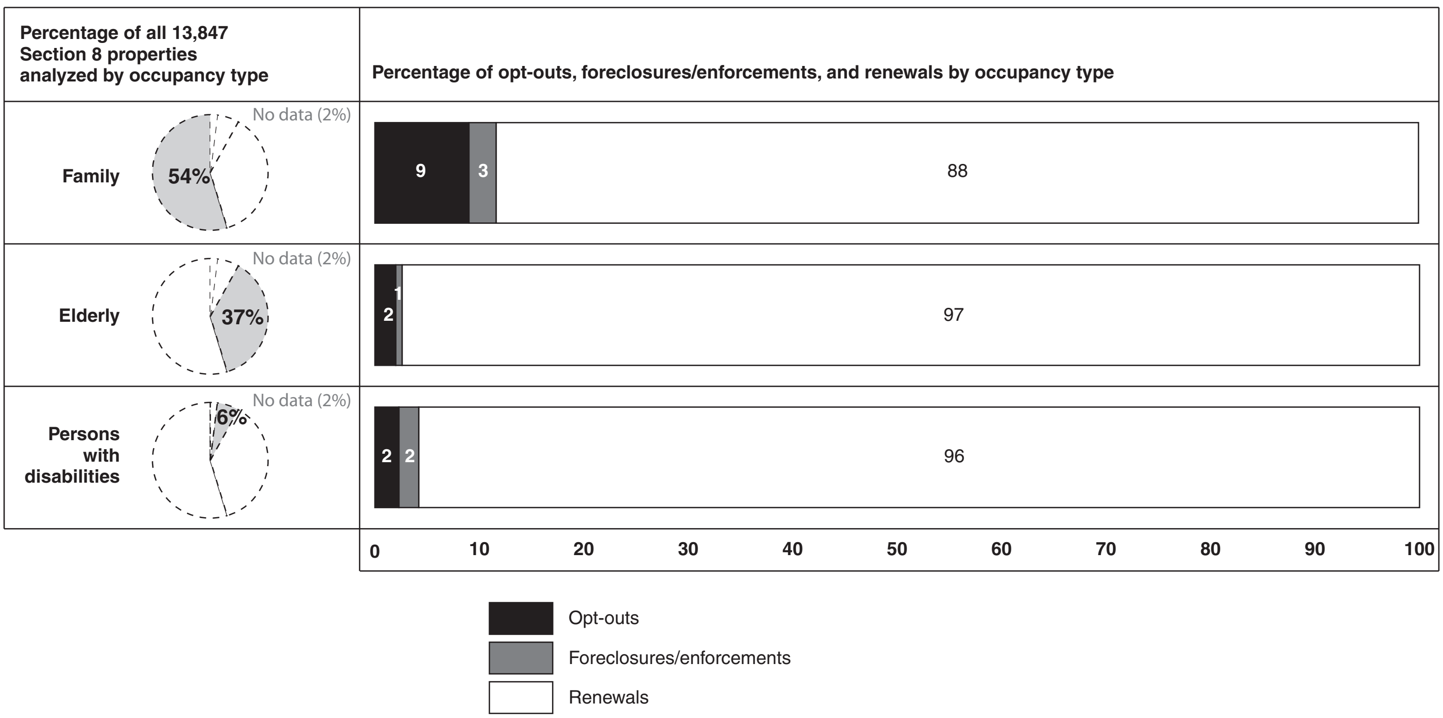
Note: Percentage may not add up to 100 percent due to rounding. There were 7 properties with no data on subsidy level; of these properties, 29 percent were opt-outs and 71 percent were foreclosures/enforcements.

We consider properties with 98-100 percent Section 8 to be fully supported, since some properties have an unsupported unit for use by the property manager.

Family-occupied Properties Had a Higher Percentage of Opt-outs Than Others

A higher percentage of properties identified as renting to families left the project-based Section 8 program than properties rented to the elderly and persons with disabilities. As shown in figure 5, 9 percent of family-occupied properties opted out of the program from 2001 through 2005 compared to about 2 percent for properties identified as renting to the elderly and persons with disabilities. The lower opt-out percentage for properties renting to the elderly and persons with disabilities can be attributed largely to the fact that many were financed through Section 202. As stated earlier, Section 202 owners find it is in their interests to continue to serve the very-low income elderly and persons with disabilities. Moreover, properties for the elderly and persons with disabilities are generally owned by non-profit entities and have use restrictions which require their low-income use through the terms of the properties' original loan. Our analysis also found that family-occupied properties also experienced a slightly higher percentage of foreclosures/enforcements than properties for the elderly and persons with disabilities.

Figure 5: Percentage of Section 8 Properties Renewed and Terminated by Type of Occupant, Fiscal Years 2001-2005



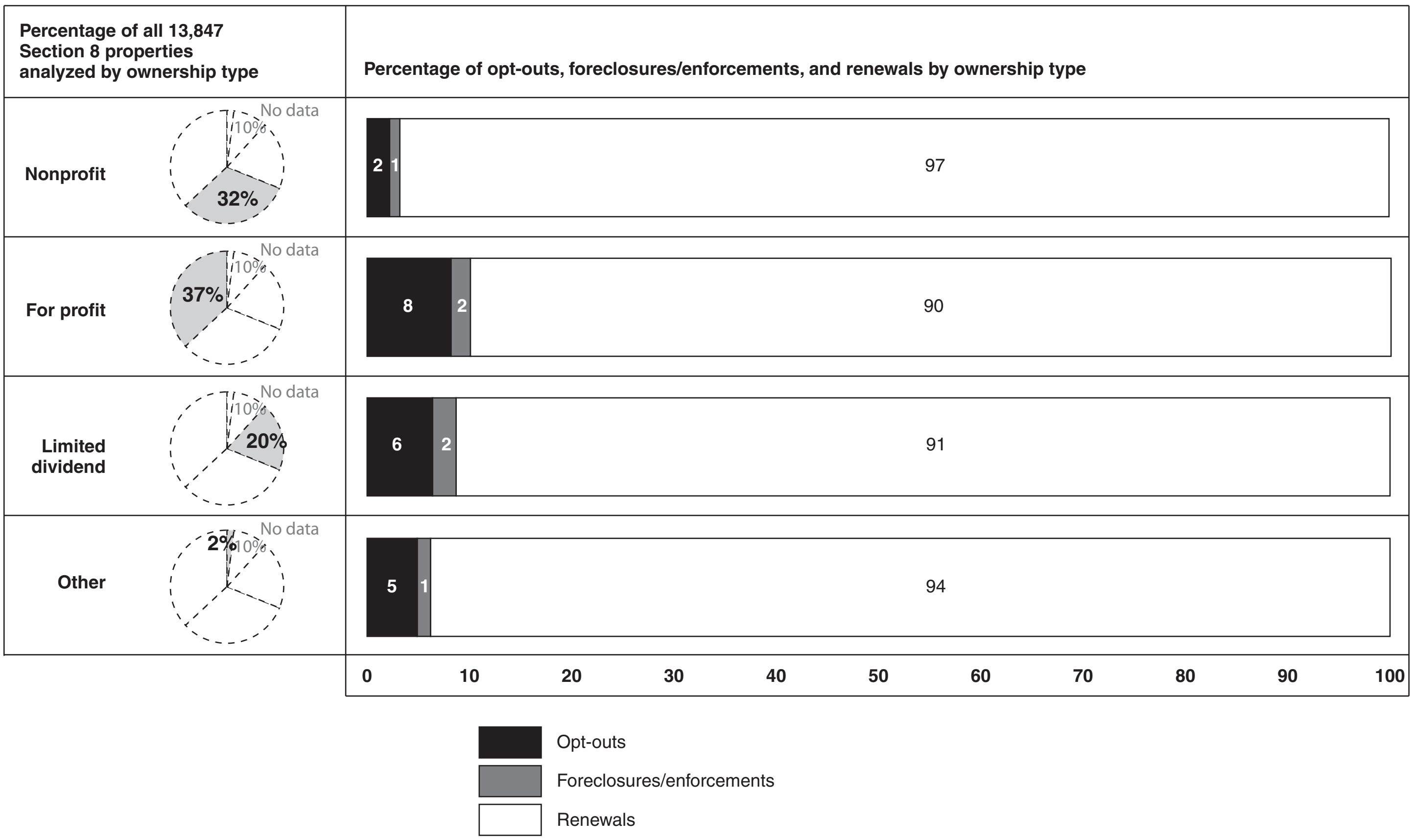
Source: GAO.

Note: Percentage may not add up to 100 percent due to rounding. There were 323 properties with no data on occupancy type; of these properties, 7 percent were opt-outs and 3 percent were foreclosures/enforcements. Eleven properties did not fall into any of the listed categories.

For-profit Owners Had a Higher Percentage of Opt-outs than Others

For-profit and limited-dividend property owners had a higher percentage of opt-outs than other types of property owners. Limited-dividend ownerships are formed under federal or state laws or regulations and can have restrictions involving rents, charges, capital structure, rate of return, or methods of operations. As shown in figure 6, collectively these two types of property owners represented 57 percent of all project-based Section 8 properties and had the highest percentage of opt-outs, at 8 and 6 percent, respectively. Conversely, nonprofit owners had the lowest percentage of opt-outs at 2 percent. The percentage of foreclosures and enforcement actions for nonprofits was also slightly lower than for all other types of ownerships.

Figure 6: Percentage of Section 8 Properties Renewed and Terminated by Ownership Type, Fiscal Years 2001-2005



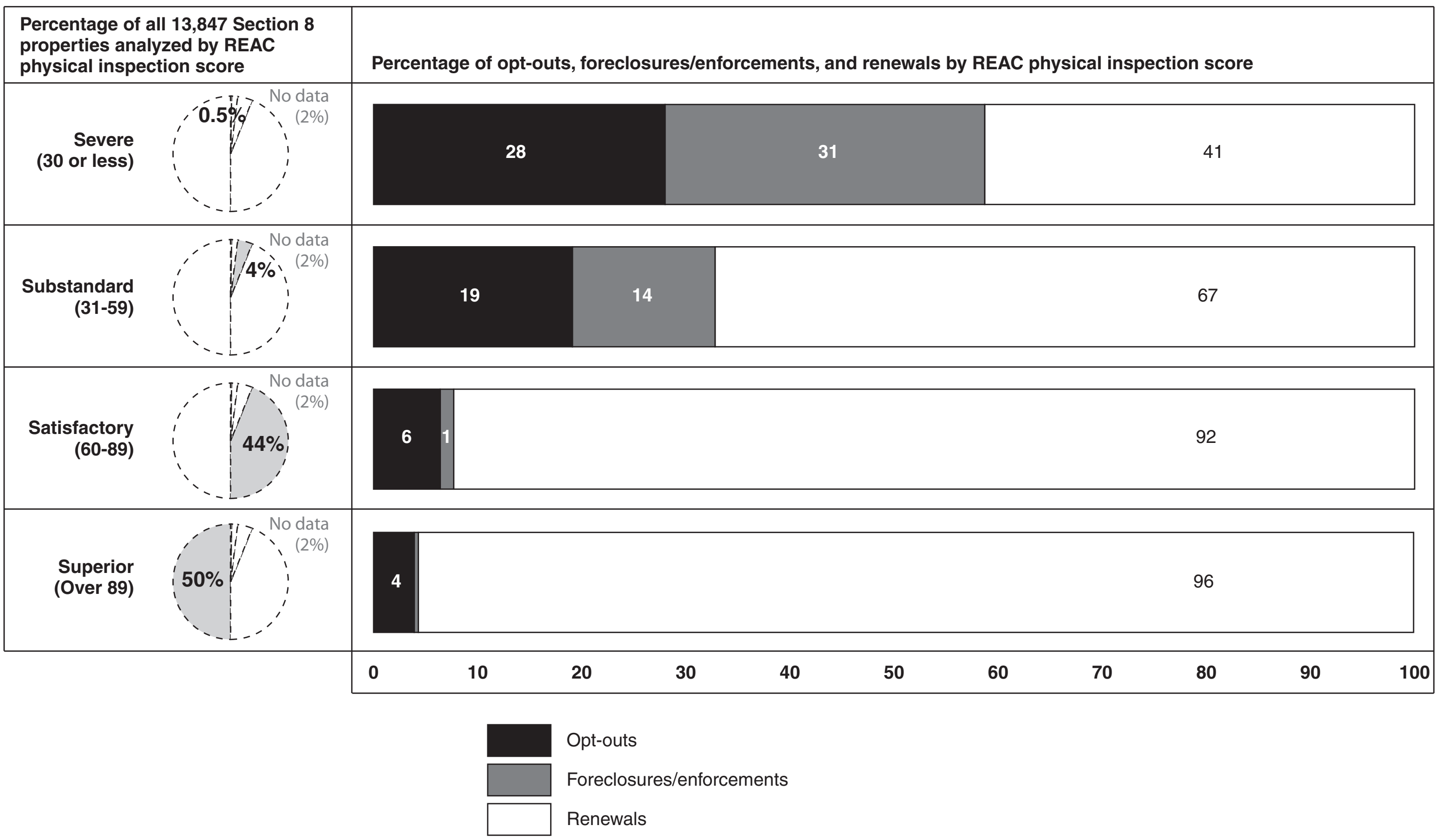
Source: GAO.

Note: Percentage may not add up to 100 percent due to rounding. There were 1,345 properties with no data on ownership type; of these properties, 10 percent were opt-outs and 5 percent were foreclosures/enforcements.

Properties in Poor Physical Condition Have a Higher Percentage of Opt-outs

When properties repeatedly fail physical inspections, HUD officials told us that they take action to protect the tenants by issuing vouchers and terminating the Section 8 contract. The officials noted that in many cases these owners wish to be relieved of HUD oversight and may believe they can do so by failing to meet HUD requirements. HUD reviews each such case and may take punitive enforcement action against the owner. These owners are more likely to opt out. Physical REAC inspection scores reflect as-is condition with negative adjustments for certain health and safety issues. Figure 7 shows that 94 percent of the properties received passing scores, with 50 percent of the properties receiving superior scores of over 89 and 44 percent receiving satisfactory scores (60-89).[17] Also, as shown in figure 7, the percentage of opt-outs for properties with substandard or severe scores was substantially higher than the percentages of opt-outs for properties with satisfactory or superior scores.

Figure 7: Percentage of Section 8 Properties Renewed and Terminated by REAC Scores, Fiscal Years 2001-2005



Source: GAO.

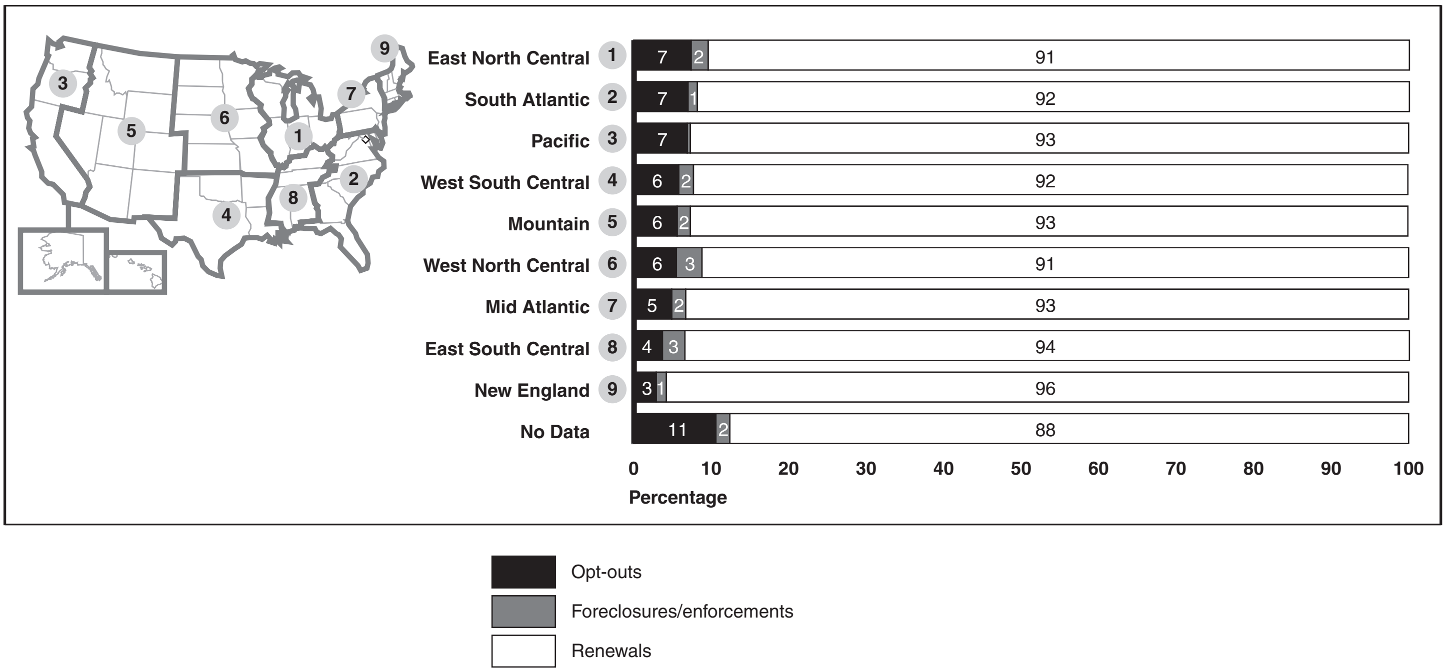
Note: Percentage may not add up to 100 percent due to rounding. There were 206 properties with no information on REAC physical inspection score; of these properties, 16 percent were opt-outs and 20 percent were foreclosures/enforcements.

[17] HUD considers REAC physical inspection scores of 60 and above to be passing.

The Percentage of Opt-outs Varies Slightly by Region

Our analysis of HUD data shows that the percentage of opt-outs varies slightly by region. Certain parts of the country had more opt-outs than other regions (fig. 8). Several southern states and New England experienced the smallest percentage of opt-outs. Appendix III and IV contain analyses of the number of opt-outs by state and the 3 regions with the highest number of opt-outs, by metropolitan areas.

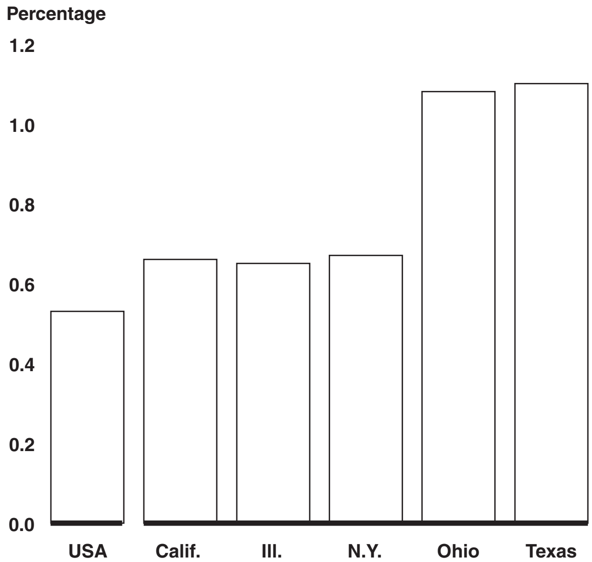
Figure 8: Percentage of Section 8 Properties Renewed and Terminated by Census Division, Fiscal Years 2001-2005



Sources: GAO; Art Explosion (map).

Figure 9 shows the national average for opt-outs and states we visited that experienced a higher percentage of opt-outs compared with the national average. Consistent with the HUD commissioned study by Econometrica, Inc., property owners and others we interviewed reported that the location of the property and the changes in the valuation of the neighborhood greatly influenced the owner's decision to remain or leave the Section 8 program. For example, properties located in neighborhoods with higher median incomes, higher median rent levels, and lower poverty and vacancy rates had higher opt-outs as a percentage of all active Section 8 units. Nationwide, over 50 percent of the opt-outs were in metropolitan areas with a million or more residents.

Figure 9: National and Selected State Opt-outs as a Percentage of All Active Section 8 Units, Fiscal Years 2001-2005



Source: GAO analysis of HUD data.

Mark-to-Market and Other Programs Encourage Owners to Keep Their Properties in the Section 8 Program

HUD offers a number of tools and incentives to property owners seeking additional funding to support their Section 8 properties. HUD reports that when owners do choose to use the HUD incentives offered, they most often select the Mark-to-Market and the Mark-up-to-Market programs. To a lesser extent, some Section 8 owners are also eligible to participate in the Section 236 decoupling program and the Section 202 refinancing program to obtain additional funding for rehabilitation. However, because these programs are available to only a portion of project-based Section 8 owners and funding for rehabilitation is limited, project-based Section 8 owners also use funds from programs outside of HUD for property rehabilitation. HUD officials, owners, and industry representatives have told us that Section 8 owners often opt to use non-HUD programs such as LIHTC and tax-exempt bonds, which the IRS administers mostly through state housing finance agencies. Both LIHTC and tax exempt bonds may be combined with HUD incentives to maintain housing at rents affordable to low-income households, but limited data is available to show how often owners make this choice.

HUD Uses Mark-to-Market to Help Owners with Above-Market Rents Remain in the Section 8 Program

The Mark-to-Market Program, which may consist of a full or “lite” restructuring, often provides an incentive for owners with rents above the market rate to remain in the Section 8 program. Owners that have a contract with the project-based Section 8 program and mortgages that are insured by FHA or held by HUD must participate in the program if their rents exceed the prevailing market level (as determined by HUD).[18] Through a full Mark-to-Market restructuring, the owner is able to finance rehabilitation needs, cover projected operating expenses, and, in some cases, enhance the property’s reserve fund to address future capital improvement needs. In exchange for choosing a full Mark-to-Market restructuring, owners virtually always receive a new project-based Section 8 contract with HUD and execute a Use Agreement to maintain the property as affordable housing for at least 30 years.

Owners of FHA-insured properties with above-market rents may request to participate in Mark-to-Market lite. This option involves only rent restructuring rather than a full mortgage restructuring and is typically used when owners can reasonably cover all of their expenses at the reduced rents and still maintain an affordable mortgage payment. In addition to lower rents, these owners generally renew their contracts for 5 years and remain eligible to participate in a Mark-to-Market full restructuring at a later date. According to HUD, Mark-to-Market lite is generally used for properties in better financial and physical condition and rents that are only slightly higher than market rents. Between 2001 and 2005, owners who renewed their contracts using HUD incentives chose this option less often than the full restructurings.

The Mark-to-Market program was scheduled to expire in October 2006. However, the Revised Continuing Appropriations Resolution of 2007 extended the program for an additional 5 years (through September 2011).[19] In addition, the House and Senate introduced the Mark-to-Market Extension Act of 2007 in January 2007.[20] If enacted, the act would (1) expand the existing Mark-to-Market authorities to provide for higher rents for eligible properties damaged by disasters, (2) expand the program’s authority to set rents above existing rent level limits,

---

[18]There are a few exceptions to this rule, such as HUD-insured mortgages financed by state or local agencies where a restructuring plan conflicts with laws or regulations governing such financing.

[19]Pub. L. 110-5.

[20]H.R. 647 and S. 131.

(3) increase to 5 years the period during which HUD may provide for not-for-profit debt relief, and (4) allow a limited number of projects with rents below market to be eligible for a Mark-to-Market restructuring.

Mark-up-to-Market Is Designed to Make the Section 8 Program More Attractive by Ensuring That Owners Receive Market Rents

Owners with below-market rents may participate in the Mark-up-to-Market program, which permits them to raise rents to either market rates or 150 percent of the HUD-determined fair market rent, whichever is less. The program provides additional rental revenue for property operations and renovation and increased distributions to owners of limited-dividend projects. Typically, Mark-up-to-Market transactions occur in rental markets with escalating rents that have exceeded HUD's established rent levels for area properties. The program's goal is to encourage owners to renew their contracts and remain in the Section 8 program by removing the economic incentive to opt out.

HUD also has a Mark-up-to-Budget Program, which is a variation of the Mark-up-to-Market program and has been used as an incentive for nonprofit owners to preserve Section 8 properties with below-market rents. The nonprofit owners must justify higher rents based on their operating budget and repair costs. Under this program, HUD permits a Section 8 budget-based rent increase for nonprofit properties to perform capital improvements that will maintain the long-term financial and physical viability of the property when current rents are not sufficient. According to HUD, Mark-Up-to-Budget may be used by a nonprofit to either facilitate a purchase transaction or finance needed repairs.

HUD Also Offers Other Incentives to Preserve Certain Project-Based Section 8 Affordable Housing

HUD has offered a number of other incentives to preserve affordable housing, such as the Section 236 decoupling, Section 202 refinance, and HOME programs, but only certain properties in the project-based Section 8 portfolio are eligible to take advantage of these incentives. Under Section 236 of the National Housing Act, HUD provides a monthly Interest Reduction Payment (IRP) subsidy to reduce the mortgage interest rate paid by property owners effectively to 1 percent. The Section 236 decoupling program allows leveraging of the IRP to benefit the owner and the property and to provide funds for rehabilitation. For example, we visited a nonprofit's 72-unit Section 8 property in Baltimore that according to the property manager had not undergone a major renovation in more than 30 years. Because the property had a Section 236 mortgage and project-based Section 8, the owner will be eligible to participate in the Section 236 Decoupling program. Through the 236 Decoupling program, the owner was able to receive additional funds to make necessary repairs to the property and to begin construction of a new community center.

HUD also administers a Section 202 refinancing program that allows owners to refinance their direct HUD loans while maintaining their Section 8 rent levels. According to HUD's August 2006 Report to Congress, the Section 202 refinancing program was used sparingly from 2001 through 2005, but activity in the program increased significantly during fiscal year 2006. In exchange for the refinancing, owners must agree to maintain affordable occupancy restrictions, comply with HUD requirements, and undertake appropriate rehabilitation of the property.

HOME is the largest federal block grant to state and local governments and is designed exclusively to create affordable housing for low-income households. Each year the program allocates approximately $2 billion among the states and hundreds of localities nationwide. While HUD does not maintain data on the number of project-based Section 8 properties that use HOME funding, HUD officials have indicated that HOME funds have been used as an incentive to keep project-based Section 8 owners in the program.

Low-Income Housing Tax Credits, Tax-exempt Bonds, and Other Tools May Also Help Preserve Project-based Section 8 Housing

HUD officials, property managers, and industry groups told us that project-based Section 8 owners also combine HUD preservation tools and incentives with non-HUD preservation tools such as the LIHTC and tax-exempt bonds to provide additional funds for rehabilitation.[21] LIHTC and tax-exempt bonds can be used by themselves or with HUD incentives such as Mark-to-Market to provide the Section 8 owner with funding for substantial rehabilitation and repairs while keeping the property affordable for low-income tenants. By combining incentives, the owner would have enough resources for capital improvements while at the same time ensuring that the property remained affordable through use-agreements for at least 30 years. However, because LIHTC and tax-exempt bonds are administered by state and local housing and finance agencies, HUD does not consistently collect data on the number of Section 8 properties using these incentives.

[21] LIHTC is an indirect federal subsidy used to finance the development of affordable rental housing for low-income households. LIHTC is an IRS program based on Section 42 of the Internal Revenue Code and was enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing.

According to HUD officials, industry groups, and owners, project-based Section 8 owners often use LIHTC to provide additional funding for rehabilitation. To be eligible for consideration under the LIHTC, a proposed property must:

- be a residential rental property;
- commit to one of two possible low-income occupancy threshold requirements;
- restrict rents, including utility charges, in low-income units; and
- operate under the rent and income restrictions for 30 years or longer in accordance with written agreements with the agency issuing the tax credits.[22]

State and local housing finance agencies also sell tax-exempt housing bonds (commonly known as Mortgage Revenue Bonds and Multifamily Housing Bonds) and use the proceeds for several purposes. These include financing low-interest mortgages for low- and moderate-income homebuyers and acquiring, constructing, and rehabilitating multifamily housing for low-income renters, including Section 8 properties.

HUD Policies and Procedures Have Caused Frustration for Some Property Owners and Could Cause Others to Leave the Project-Based Section 8 Program

While most owners renewed their contracts, some told us that they had concerns with certain HUD policies and practices. Some described multiple frustrations that led to what they and industry representatives called "HUD fatigue." They said that frustrations with HUD could result in owners opting out of their contracts even when doing so might not be in their economic interest. Among the frustrations they discussed were HUD's one-for-one replacement policy for Section 8 units; policies and procedures that could lead to economic distress, especially Operating Cost Adjustment Factors (OCAF) payments; and a lack of clarity and consistency on HUD's part in applying policies. We found that the one-for-one replacement policy, in particular, resulted in a loss of some properties and higher vacancy rates that could potentially lead to foreclosure.

[22]LIHTC recipients must commit to one of two possible low-income threshold requirements. Owners must commit to renting at least 20 percent of the units to households with incomes at or below 50 percent of the HUD-established area median income or commit to renting at least 40 percent of units to households at or below 60 percent of the HUD-established area median income.

Industry representatives whom we interviewed agreed that HUD could improve its policies and procedures for project-based Section 8 housing, and both industry representatives and owners offered suggestions for steps HUD could take to improve preservation efforts.

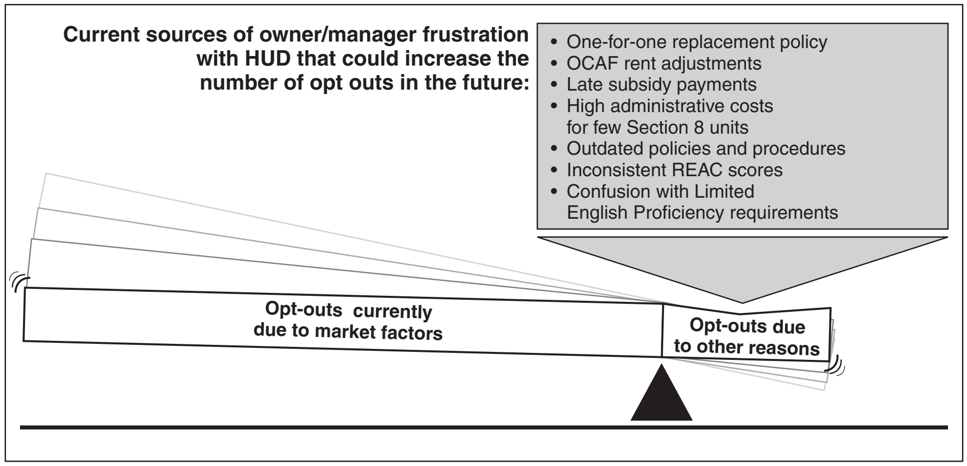
Many Project-Based Section 8 Owners Were Committed to Remaining in the Program

In the locations we visited, we spoke to owners and managers who either renewed their project-based Section 8 contract or decided to opt out of the program. Of those owners and managers who decided to remain in the program, many told us that their primary motivation was the guaranteed rental income that the Section 8 subsidy provided. Some of the managers in depressed rental markets in the locations we visited told us that they would be unable to fill units or would have high vacancy rates if they were to opt out of the Section 8 program. As we have seen, nonprofit owners rarely decided to opt out of the Section 8 program and told us that they stayed in the program because their mission was to provide affordable housing.

Generally, Section 8 owners and property managers in the locations we visited said that HUD did not encourage them to opt out of the Section 8 program. Rather, most stated that HUD tried to keep them in the program by using various tools and offering incentives, such as the Mark-to-Market and Mark-up-to-Market programs. HUD officials also stated that although their goal was to preserve as many project-based Section 8 housing units as they could, the final decision on whether to renew or opt out was made by the owner and in most cases was driven by market factors that were beyond HUD’s control.

Some owners who left the program said that their decision was based on economic or market factors and not on dissatisfaction with HUD. Nonetheless, many of the owners (both those that remained in and those that had left the Section 8 program), managers, and industry representatives with whom we spoke cited areas in which the Section 8 program could be improved. Owners and managers expressed concerns regarding specific HUD policies and practices that could result in opt-outs, foreclosures, or cause financial distress or that lacked clarity and consistent application. Figure 10 illustrates project-based Section 8 owners’ frustrations with HUD that have caused opt-outs in the past or could possibly increase the number of future opt-outs. As shown in the graphic, although the majority of the opt-outs occur for economic or market factors, growing owner frustration could upset the balance causing more owners to consider opting out even when economic conditions could be overcome or mitigated.

Figure 10: Factors Contributing to HUD Fatigue



Source: GAO.

HUD's One-for-One Replacement Policy Can Result in Fewer Units and More Opt-outs

Some owners, managers, and industry representatives told us that some HUD practices have not always kept pace with changes in market conditions. For example, some owners told us that HUD required a one-for-one replacement policy for Section 8 units when owners renewed their contracts. That is, HUD generally does not allow owners to reduce the number of project-based Section 8 units or to reconfigure the units to better meet market demand, even when the alternative could result in owners opting out and removing all of their units from the program.

HUD officials told us that although there was no statutory requirement for one-for-one replacement of project-based Section 8 units, the unwritten policy had been to require replacement of units in all cases. HUD officials said that they based this policy on the public housing requirement set by the Housing and Community Development Act of 1987. However, Congress waived the one-for-one replacement requirement for public housing units from 1995 through 1998, and the Quality Housing and Work Responsibility Act of 1998 permanently eliminated it for public housing. HUD officials said that their rationale for maintaining their policy was that many of the properties had long waiting lists and that any reductions in the number of available units was counter to a demonstrated need for affordable housing.

Some owners, managers, and industry representatives pointed to the one-for-one replacement requirement for all units as an example of one of their frustrations with HUD policies. Some owners told us that HUD would not allow them to reduce the number of Section 8 units in a property or reconfigure the units to better meet market demand, even when some types of units had high vacancy rates and other types had long waiting lists. The requirement was particularly troublesome for owners of units containing efficiency apartments, which in some areas were not in high demand. These owners wanted to replace the efficiency apartments with fewer one-bedroom units, which were in demand. For example, one nonprofit that primarily serves the elderly told us that even though the HUD field office approved a transaction converting efficiencies into fewer one-bedroom units for one of their properties, HUD headquarters reversed that decision based on its one-for-one replacement policy. Also, a member of the National Affordable Housing Management Association (NAHMA), an association that represents property management agents, told us that the owners of an Iowa property rented to elderly tenants had difficulties filling efficiency units. NAHMA officials said that one of the owner's major obstacles in converting to one-bedroom units was getting HUD's approval to waive the one-for-one replacement policy. This lack of flexibility on the part of HUD in insisting upon one-for-one replacement, rather than—for example—evaluating each case on its own merits, could hinder the preservation of certain project-based Section 8 units.

In at least one case, a property owner left the project-based Section 8 program because the owner could not convert some units into market-rate housing. The owners of a property in Chicago wanted to split their Section 8 contract and convert 3 of the 82 units to condominiums, preserving the rest as Section 8. According to the owners, splitting the contract made sense because the three units were in a building that was separate from the remaining 79 units. HUD's Chicago Field Office told the owners that they could not split the Section 8 contract because of the one-for-one replacement policy. As a result, the owners opted out, and all 82 units left the Section 8 program.

Other industry groups, including NAHMA, the National Leased Housing Association, and the law firm of Nixon Peabody, which represents owners and managers, also agreed on the need for HUD to adapt to changing market conditions in reconfiguring Section 8 units. These representatives told us that some of their transactions involving project-based Section 8 units were being held up by issues relating to reducing the number of unmarketable efficiencies or reconfiguring other Section 8 units. HUD headquarters officials told us that they were aware of the problem and that they were rethinking their policy, particularly as it applied to units for elderly tenants, but were concerned about setting precedent for owners to request unit reductions even when the market factors were not an issue. HUD officials told us that they had initially planned to focus on providing flexibility to elderly developments affected by the one-for-one replacement policy. But the officials added that they had seen the need to assess the impact that the one-for-one replacement policy was having on family properties as well. Nevertheless, not allowing owners to reconfigure the number of units in their Section 8 contract in certain cases could result in some owners deciding to opt out of the Section 8 contract altogether.

The OCAF Adjustment Process is Not Timely and Imposes a Financial Burden on Some Owners

Some of the owners, managers, and industry representatives told us that the OCAF inflation adjustments that owners are entitled to receive every year are not timely, equitable, or responsive to price hikes or emergency situations. OCAF adjustments are calculated by HUD annually using nine expense categories, including utilities, property taxes, and insurance that are aggregated at the state level.[23] Section 524 of MAHRA gives HUD broad discretion in setting OCAF adjustments, with one exception: that application of an OCAF adjustment will not result in a negative rent adjustment.

Owners, managers, and industry representatives were concerned that the OCAF adjustments were not made on a timely basis. According to a number of industry groups, the adjustments are often obsolete by the time they are adopted. HUD officials confirmed that there was a lag of about 15 to 18 months from the time that HUD collected the data to the time that the adjustments became effective. One industry representative told us that HUD was unable to revise the adjustments to respond to any cost hikes during the lag time period.

Some of the owners and the industry representatives also told us that they were concerned with the unequal distribution of OCAF adjustments within states. Some owners and industry representatives pointed out that the formula HUD used did not take into account differences in markets within states for commodities such as electricity and insurance. They said that in some markets, the cost of utilities and insurance often escalated monthly, while in other areas this cost was relatively stable. For example, a property manager in New York City told us that it did not seem equitable

[23]The nine expense categories that HUD takes into account when determining the OCAF adjustments are wages, employee benefits, property taxes, insurance, supplies and equipment, fuel oil, electricity, natural gas, and water and sewer.

to have the same OCAF adjustment for New York City, where costs were extremely high and likely to fluctuate precipitously, as for upstate New York, where costs were much lower.

Some of the owners, managers, and industry representatives that we talked to also said that OCAF adjustments were not able to respond to price hikes or emergency situations in many parts of the country. For example, a member of NAHMA that managed elderly developments in Iowa told us that the OCAF adjustments during the last 4 years had been too small given the rapid escalation of natural gas rates in that region of the country. As a consequence, the management company had to use capital reserves to address operating cash deficits, putting it at risk of being unable to cover unexpected capital repairs. Another NAHMA member that managed a 120-unit project-based Section 8 property for the elderly in Minnesota said that heating costs had increased 22 percent in 2006 over the previous year but that the OCAF adjustment for 2006 was only 2.8 percent. NAHMA officials said that rising utility costs had become an enormous challenge for many Section 8 owners. In particular, NAHMA officials noted that HUD needed a more timely mechanism to address emergency operating cost increases—for example, after natural disasters. Officials from Stewards of Affordable Housing, a group representing some of the largest nonprofits that own and manage project-based Section 8 properties, also stated that OCAF adjustments did not keep up with inflation. For instance, a 2006 survey of members of the Florida Association of Homes for the Aging and the Southeastern Affordable Housing Management Association reported that none of the respondents had had an insurance premium increase of less than 50 percent between 2005 and 2006. Further, the survey found that, on average, premiums had doubled in one year, and one respondent reported a tenfold increase in its insurance premium.

HUD officials, including the Deputy Assistant Secretary for Multifamily Housing, said that they were aware of the lag in OCAF adjustments, the equity concerns, and the difficulties in responding to price hikes and emergency situations. However, they said that HUD was taking steps to address these issues. In the short term, HUD officials said that they were allowing owners to tap into their capital reserve accounts to cover unforeseen operating cost increases. However, this practice works only as long as reserves are available or future OCAF adjustments are guaranteed. In the long run, HUD officials plan to evaluate ways to change the OCAF adjustment factors and make them responsive to market factors. To deal with the issue of market differences within a state, HUD is currently considering a proposal to make adjustments to OCAF using data from metropolitan areas instead of states. HUD officials said that they were also considering an industry group's proposal to address owners' concerns about price hikes and emergency situations.[24] The proposal would authorize owners to borrow against future rent adjustments using their capital reserve accounts as collateral. Owners and industry groups contended that if HUD neglected to revise the OCAF adjustment process, owners in high-cost areas or those experiencing emergency cost escalations might not receive enough in subsidies to meet their expenses and could consider opting out of the program.

Other Factors Affect Owners' Cash-Flows and Abilities to Undertake Rehabilitation

Some owners, managers, and industry groups expressed concerns that some HUD policies and procedures could affect the owners' cash flows and undermine their abilities to undertake needed rehabilitation of their properties. Among these were (1) late subsidy payment to owners, (2) high administrative costs relative to the number of Section 8 units in a property, (3) confusion about the Limited English Proficiency requirement, and (4) unclear or vague HUD policies and procedures.

Late Subsidy Payments

Several owners and HUD staff told us that project-based Section 8 Housing Assistance Payments were frequently late, especially when HUD was under continuing resolutions. In November 2005, we reported that from fiscal years 1995 through 2004, HUD disbursed three-fourths of its monthly Section 8 payments on time but that thousands of payments were late each year.[25] Owners who are heavily reliant on HUD's subsidy to operate their properties are the most likely to be severely affected by payment delays. Owners reported receiving no warning from HUD when payments would be delayed and reported that such notification would allow them to mitigate the effects of a delay. In our November 2005 report, we recommended that HUD, among other things, streamline and automate the contract renewal process to prevent processing errors and delays and eliminate paper/hard-copy requirements to the extent practicable; develop systematic means to better estimate the amounts that should be allocated and obligated to project-based Section 8 payment contracts each year;

[24]The "Recognized Increased Cost" (RIC) initiative was developed by NAHMA and a coalition of eight organizations, with the help of the consulting firm Recapitalization Advisors, Inc.

[25]See GAO, *Project-Based Rental Assistance: HUD Should Streamline Its Processes to Ensure Timely Housing Assistance Payments*, GAO-06-57 (Washington, D.C.: Nov. 15, 2005).

monitor the ongoing funding needs of each contract; ensure that additional funds were promptly obligated to contracts when necessary to prevent payment delays; and notify owners if their monthly payments would be late, including in such notifications the date when the monthly payment would be made. In response to the report, HUD officials said that they would take actions to better predict the funding allocation process and develop a system to more promptly notify owners when payments were expected to be late.

Owners told us that when they did not receive payments on time, they often had to use reserve funds to cover critical operating expenses, leading to cash flow problems. During these periods, some owners delayed needed maintenance to make up for the budget shortfall. For example, we found in our work for this current report that in Baltimore, a nonprofit owner of a project-based Section 8 property for elderly residents delayed critical repairs to the boiler system when the payments were delayed. The owner used reserve funds that should have been used for repairs to cover operating costs. This situation contributed to a lower physical REAC score for the owner because the boiler was in need of repair.

HUD headquarters officials told us that they had created a working group of HUD officials and industry representatives that would provide recommendations to HUD for improving its budget process to reduce late Section 8 payments.

Administrative Costs Relative to Number of Section 8 Units

HUD officials said that they require the same information and documentation from all owners, no matter how many Section 8 units they own. Therefore, owners with a few Section 8 units may find the administrative costs of participating in the program burdensome. Some of the property owners we met with confirmed this fact. HUD officials said that owners with larger numbers of Section 8 units were able to spread the fixed administrative costs across more units and achieve economies of scale. Most of these owners' expenditures went to hire dedicated staff to manage the program, which requires separate accounting, management, occupancy, and oversight systems. The owners said that they were also incurring costs for background checks on Section 8 applicants and annual tenant recertifications. For example, in Columbus, Ohio, a manager told us that an owner with a few Section 8 units decided to opt out in 2002 because of the high administrative costs of keeping 24 Section 8 units in a development that had a total of 141 units. The manager said that by opting out, the owner saved up to $25,000 in payroll costs and was still able to keep the majority of the tenants who were eligible to receive Section 8 incentives through tenant vouchers administered by the local public housing agency. HUD field office staff in Columbus told us that for some owners who had few Section 8 subsidized units, keeping separate financial, management, and occupancy records for both Section 8 and other tenants might not be feasible.

The January 2006 HUD commissioned study by Econometrica, Inc., reported a similar finding. The study noted that owners with a smaller portion of their portfolio in Section 8 units incurred additional operating costs for maintaining staff members with the skills needed to administer the Section 8 program. The study concluded that operating a Section 8 property required administrative skills specific to the program and it might not be economically feasible for these owners to employ staff members with the needed skills.

The Limited English Proficiency Requirement

There is some concern and confusion among project-based Section 8 owners and managers on what is required of them to comply with their obligations to persons with limited English proficiency. Under Title VI of the Civil Rights Act of 1964, and its implementing regulations, recipients of federal financial assistance have a responsibility to ensure meaningful access to programs and activities for these individuals. Presidential Executive Order 13166, “Improving Access to Services to Persons with Limited English Proficiency” directs each federal agency that extends assistance subject to Title VI to publish guidance for its recipients clarifying their obligations to persons with limited English.

HUD published the final “Guidance to Federal Financial Assistance Recipients Regarding Title VI Prohibition against National Origin Discrimination Affecting Limited English Proficient Persons” on January 22, 2007. Under this guidance, recipients of HUD funds use four factors to determine the extent of their obligations to provide services to those with limited English proficiency. These four factors include: (1) the number or proportion of such persons who are eligible to be served or likely to be encountered by the program or grantee, (2) the frequency with which these persons come in contact with the program, (3) the nature and importance of the program, activity, or service provided by the program to people’s lives, and (4) the resources available to the grantee/recipient and costs. Based on these factors, a HUD recipient would develop an implementation plan to address the identified needs of the populations they serve that have limited English proficiency.

Some owners, managers, and their representatives said that they agreed with the goal that this group have access to HUD programs but that it was not clear how HUD was implementing this order. Particularly, these officials were concerned with the lack of clarity in describing the written translations and oral interpretation services HUD was to provide and those that would be the owners' responsibility. NAHMA officials stated that the perception was that the owners would have to bear most of the cost of providing the written translations of vital documents and oral interpretation services free of charge to both applicants and residents. However, these officials noted that HUD had proposed no additional funding to offset these higher costs. Furthermore, NAHMA officials said that expenses for translating documents or providing interpretation services were not accounted for in the OCAF adjustments or included in rent comparability studies.

NAHMA officials added that they were concerned because HUD was already holding property owners accountable to the requirements for limited English proficiency as part of fair housing and compliance reviews. These officials stated that holding the owners to these requirements could expose affordable housing owners to unwarranted fair housing complaints and discrimination lawsuits. Also, NAHMA officials stated that adding this regulatory expense without increasing compensation changed the nature of the agreement between HUD and the property owner. Given this extra cost and additional legal liability, owners could be inclined to leave the program, because they would not have to deal with the requirement once they had opted out.

Unclear HUD Policies and Procedures

Some owners, managers, and industry representatives raised concerns about the clarity of HUD policies and procedures and the way the policies were applied. Of particular concern were the Section 8 Renewal Guide and the REAC physical inspection score. MAHRA established policies for renewing project-based Section 8 contracts, and HUD adopted these regulations in 1998. The rules and procedures were then incorporated in the Section 8 Renewal Guide, which HUD published in 1999. HUD officials noted that they were currently in the process of issuing updates to the Renewal Guide. However, according to a group representing the private owners, only parts of the Renewal Guide had been updated despite many changes to HUD's policies and procedures, particularly regarding the Mark-to-Market and Mark-Up-to-Market program.

Largely as a result of the out-of-date information, the guide can be confusing, particularly to owners that have a few project-based Section 8 units. Property owners and industry representatives cited gray areas in the guide, particularly concerning the Mark-to-Market option. For example, in Baltimore we visited two small nonprofits that owned Section 8 properties. Property managers for both properties faced challenges navigating complex HUD policies that they said the guide did not adequately explain, such as when and under what conditions the owner could choose a different renewal option. While several nonprofit groups offer training on HUD policies for project-based Section 8 properties, a property manager told us they did not have the resources to pay for training on their own. We also were told that a lack of understanding of HUD policies had caused some owners to receive low scores on management reviews that comprised their Section 8 status. HUD officials told us that they had set up a task force to examine the guide and that it was currently being updated.

REAC inspections are an integral part of HUD's efforts to oversee the properties in its inventory of affordable housing. HUD's physical inspections require that multifamily housing be decent, safe, sanitary, and in good repair. The standards establish specific requirements for the site, the dwelling units, and common areas. HUD has developed a detailed list of items that inspectors are required to review at properties and specifically defines what constitutes a deficiency for each inspected unit. However, some owners, managers, and representatives of multifamily housing industry groups we interviewed had concerns about the reliability, consistency, and fairness of REAC's inspections. For example, owners and property managers in New York City and Houston indicated that REAC inspectors recorded violations for minor issues that often were outside of the managers' control.

Some of the owners also stated that they were cited for minor violations rather than for cumulative violations and that inspections tended to be arbitrary. For example, HUD's Chicago field office and a Chicago nonprofit reported that REAC inspectors ignored the deteriorating overall condition of a property because the inspectors were either inexperienced or afraid to enter some of the buildings. Specifically, Chicago's Lawndale apartments—which had one owner with 1,105 units in 104 buildings spread over a large area in North Lawndale—received passing REAC physical condition scores, although the overall complex was in disrepair. The end result was that Lawndale was to be split up and sold to a number of owners, resulting in about 700 of the 1,105 Section 8 units leaving the project-based Section 8 program. HUD officials told us that because of the enormous size of the Lawndale apartments, the complex was not a typical HUD Section 8 project-based property. They defended the REAC process, stating that the random nature of its inspections could result in passing scores at a large project like Lawndale, which had a mix of substandard and passing units. They believed that what happened at Lawndale was an isolated incident but that such an outlier should have been more carefully monitored by HUD.

Conclusions

Most project-based Section 8 property owners opt to renew their contracts with HUD, but the 8 percent of expiring contracts that were not renewed between 2001 through 2005 represent over 50,000 units that are no longer subsidized through the program. Our work identified some recurring program issues and concerns including the rigidity of the one-for-one replacement requirement, difficulties with the OCAF adjustments and other administrative burdens, all of which could affect the program's positive retention rate as more properties come up for renewal.

Based on the views of Section 8 owners and managers we interviewed, HUD's one-for-one replacement policy has made certain properties vulnerable to exiting the program. Particularly, not allowing owners to reconfigure hard-to-fill efficiency apartments in some markets into fewer one-bedroom units could cause financial difficulty for owners and lead to a decision to opt out of the program. Also by not allowing owners to reduce the number of units in a property because of the desire to have one-for-one replacement, HUD may inadvertently be forcing owners out of the program. Consistent with congressional action that eliminated the one-for-one replacement requirement in HUD's Public Housing programs, we are encouraged that HUD has started to rethink this policy in light of changing market conditions especially for the elderly, and understand the difficulty HUD faces in balancing the need to preserve affordable housing with the requests of property owners. However, without a more flexible policy, HUD risks losing more properties from the Section 8 program. As more contracts come up for renewal, owners may continue to leave the program if they do not have the flexibility to make changes that the market demands to existing housing stock. HUD's field offices, which are best situated to understand local market needs, may be in the best position to make these types of property decisions.

The OCAF adjustment process, which is required by MAHRA, is another area that may threaten HUD's preservation efforts. As currently implemented, HUD estimates of costs for items such as utilities and insurance in some cases do not reflect current market conditions, primarily because they are estimated 15-18 months before they take effect and are applied statewide. As a result, property owners in high-cost areas may not receive enough in subsidies to meet their expenses. Moreover, during emergency situations HUD does not have a process to address rapidly changing prices such as spikes in energy costs or rapidly increasing insurance rates in coastal areas. Ultimately, owners divert money from capital improvement projects to cover such operating expenses. These types of issues could result in more owners leaving the program. Given that many property owners emphasized that guaranteed rental income was a primary reason for staying in the program, HUD needs to help ensure that properties are covered for the increases in costs incurred. If HUD does not act quickly to review the OCAF adjustment process, property owners may be forced to leave the Section 8 program due to lack of sufficient funding.

Finally, owners, managers, and industry representatives raised a number of other issues that could drive them out of the program. These issues included certain policies and procedures that were described as unclear, inconsistently applied, or administratively burdensome. Specifically, late subsidy payments, higher administrative costs for owners with fewer Section 8 units, confusion about requirements for persons with limited English proficiency, and unclear HUD policies and procedures could contribute to owners opting out of the Section 8 program, taking units that cannot be replaced out of the affordable housing stock.

Recommendations for Executive Action

To help ensure that project-based Section 8 preservation efforts meet the needs of a changing housing market, we recommend that the HUD Secretary direct the Deputy Assistant Secretary for Multi-family Housing to:

- modify the one-for-one replacement requirement to allow for a case-by-case assessment of the merits of permitting owners to reduce the number of project-based Section 8 units or reconfigure the units to better meet market demand and to expand its reconsideration of this policy beyond elderly properties,
- expeditiously reevaluate its OCAF adjustment process to make sure that the adjustments reflect local variations, are implemented in a more timely manner, and are responsive to emergency situations, and
- determine if any of the additional issues raised by owners such as policies and procedures that are unclear, inconsistently applied, or administratively burdensome could contribute to owners' opting out of the Section 8 program and take steps to address these issues.

Agency Comments and Our Evaluation

We received comments on a draft of this report from HUD's Assistant Secretary for Housing—Federal Housing Commissioner that have been reproduced in appendix II. The Commissioner generally agreed with the report, and noted that it confirmed that HUD was not encouraging property owners to opt out of the project-based Section 8 program but rather was using a variety of tools to encourage continued participation. He also said that the report contained several positive suggestions for improving program delivery, but added that none of the recommendations would likely deter owners seeking to maximize their economic gains in a "hot" real estate market from leaving the program. We agree that most owners that opt out of the project-based Section 8 program do so because of market factors rather than dissatisfaction with HUD's preservation efforts. However, given the finite supply of project-based Section 8 properties, addressing some of the recurring program issues and concerns we identified could help keep some owners from opting out of the program. The Commissioner also noted that the report lacked data on the number of opt-outs that might have been avoided if the proposed recommendations had been implemented. We agree that such data would have allowed us to determine specific reasons owners opted out of the program, but because HUD does not track properties and the reasons that they leave the program, the data were not readily available.

Addressing our recommendation that HUD modify the one-for-one replacement policy to allow for case-by-case assessments of requests to reduce the number of or reconfigure existing units, the Commissioner expressed concern that revising the policy might save one or two projects from opting out but lead to a greater net loss of assisted units. He added, however, that HUD was aware of the need to accommodate market demand and would be evaluating the policy and identifying criteria for approving such requests. We are encouraged that HUD is considering a more flexible policy and continue to support the position that criteria can be developed that balance market demand and the need to preserve affordable housing.

Regarding our recommendation that HUD expeditiously reevaluate its OCAF adjustment process, the Commissioner wrote that the department was aware of industry concerns about the use of statewide data, the approximately 18-month lag between the time data is collected and the adjustments go into effect, and the fact that OCAF does not take into account emergency situations. He noted that HUD had initiated a review of the OCAF methodology, including the actual costs to the portfolio resulting from the lag time and the use of statewide data, and planned to complete and announce the results of the review by the end of fiscal year 2007.

Concerning our recommendation that HUD determine if any of the additional issues that property owners raised could be contributing to the decision to opt out of the program, the Commissioner said that HUD was aware of the concerns we cited and was always willing to consider recommendations that could reduce administrative costs and encourage owners to stay in the program. For example, he acknowledged that the project-based Section 8 payments were late from time to time but added that the agency was committed to improving the process and would provide updates on its progress to GAO and the Congress.

We are sending copies of this report to the Chairman and Ranking Minority Member of the Senate Committee on Appropriations; the Chairman and Ranking Minority Member of the Senate Committee on Banking, Housing and Urban Affairs; the Chairman and Ranking Minority Member of the House Committee on Appropriations; the Chairman and Ranking Minority Member of the House Committee on House Financial Services; the Secretary of HUD; and other interested parties. This report will also be available at no charge on GAO's Web site http://www.gao.gov.

Please contact me at (202) 512-8678 or williamso@gao.gov if you or your staff have any questions about this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

Orice M. Williams
Director, Financial Markets
and Community Investment

Appendix I: Scope and Methodology

To assess the Department of Housing and Urban Development (HUD's) efforts to maintain Section 8 project-based housing stock and identify any discernable patterns in its preservation efforts, we reviewed the department's five-year analysis of units terminated and retained by year, state, and locality for the period 2001-2005. HUD's analysis is contained in a report to Congress, *Section 8 Project-Based Contract Renewals*, sent to the Senate Appropriations Committee in August, 2006. To facilitate this effort, HUD's Office of Multifamily Programs and Systems, in June of 2006, provided us a data extract containing information on all Section 8 contract activity for the 5-year period. This extract incorporated and combined data from HUD's Real Estate Management System (REMS), which reflects historical information on all properties in HUD's multifamily portfolio; DATAMART, a subset of REMS, which depicts data for all active multifamily properties; and the Tenant Rental Assistance Certification System (TRACS), which illustrates historical activity for all multifamily properties subsidized department's Real Estate Assessment Center (REAC) database system showing the most recent physical and financial conditions of properties in HUD's multifamily portfolio.

To determine the number of Section 8 project-based units renewed and terminated during the five year period as well as the characteristics and locations of their associated properties, we reviewed, analyzed, and replicated all numbers contained in HUD's report relating to Section 8 contracts that left or remained in HUD's portfolio during 2001-2005. By comparing renewals and terminations, we determined the extent to which HUD's Section 8 project-based housing stock grew or declined. Our analysis also enabled us to observe patterns associated with such actions. Following the same methodology HUD employed in its Report to Congress, we counted individual contract renewals and their associated units only once irrespective of how many times an owner renewed the contract. Moreover, we only considered contracts as renewals if such contracts were active at the end of 2005. In contrast, terminated contracts included all situations where owners opted out of their Section 8 contractual obligations anytime during the 5-year period; mortgage foreclosures; and contracts terminated by HUD due to enforcement actions. We counted contractual terminations as a single event because, by definition, the contract no longer exists.

We also used the database extract to analyze characteristics of properties that left or remained in the Section 8 Program that HUD did not address in its report. For instance, we evaluated the types of rental assistance associated with renewals and terminations; occupancy and unit characteristics of properties whose owners elected to renew or opt out of their contractual obligations; and the physical and financial conditions of such properties. In addition, to determine which geographic locations had what number of contract renewals or terminations, and if any evidence of patterns in such locations existed, we obtained census divisions from the Census Bureau website and mapped properties using the divisions. Our analysis enabled us to depict the locations where HUD was losing or gaining Section 8 housing stock at the county level.

To ensure that the HUD data were reliable, we performed various electronic tests and checks to determine (1) the extent to which the data were complete and accurate, (2) the reasonableness of the values reflected in the data variables, (3) if any data fields had missing values, and, (4) whether any data limitations existed in the data we relied upon to do our work. In addition, we reviewed existing information about the quality and controls of the data systems and discussed the data we analyzed, as well as the programming code used to manipulate such data, with agency officials to ensure that we interpreted them correctly to do our analysis. Based upon our reliability assessment, we concluded that HUD's data were sufficiently reliable for purposes of this report. Moreover, our analysis determined that the information reflected in HUD's report to Congress was accurate and reliable for purposes of ascertaining the extent to which Section 8 contracts and their associated units were terminated or gained during the 5-year period 2001-2005. The data we obtained from HUD were current as of June 15, 2006.

To identify the tools and incentives available to HUD to preserve project-based Section 8, we reviewed and summarized legislation and regulations pertaining to Section 8 project-based housing preservation including the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) of 1997 and the Section 8 Renewal Guide. To identify the incentives offered to Section 8 owners, we conducted interviews with HUD headquarters staff in Washington, D.C. and field office staff in Baltimore, Maryland; Chicago, Illinois; New York, New York; Los Angeles, California; Columbus, Ohio; and Houston, Texas. To get additional information about the use of these incentives, we conducted interviews with Section 8 property owners and managers, nonprofit organizations, industry groups, HUD contractors, and state and local government finance agencies. To determine how frequently Section 8 owners used each tool or incentive, we extracted and analyzed data from HUD's Real Estate Management System (REMS) and spoke with HUD officials and industry groups. REMS includes historical information on all properties in HUD's multifamily portfolio including data on project-based Section 8 properties and contracts. One Section 8 property may have multiple contracts.

To assess the views of for-profit and nonprofit property owners and managers on HUD's Section 8 housing preservation efforts, we interviewed industry representatives and conducted case studies in five selected locations.[1] We judgmentally selected for review five HUD office locations (two regional offices and three field offices) in which to complete interviews with for-profit and nonprofit property owners and managers. Sites were selected based on the following characteristics: (1) percentage of units that opted out from 2001 through 2005, (2) vacancy rate (3) geographic location, (4) percentage of households with worst-case housing needs, and (5) HUD regional and field office program performance. In the selected case study locations, we conducted interviews with current and former project-based Section 8 for-profit and nonprofit property owners and managers as well as HUD office staff. We also interviewed performance-based contract administrators (PBCA), entities responsible for administering project-based Section 8 contracts, and participating administrative entities (PAE), entities responsible for structuring Mark-to-Market transactions, serving the selected case study locations. For all of our interviews, we used a standardized interview guide to ensure consistency. We gathered information on reasons selected for-profit and nonprofit property owners stayed in or left the project-based Section 8 program and perceptions about the effectiveness of HUD's tools and incentives to preserve Section 8 housing. We also reviewed relevant documentation provided by property owners and managers, HUD regional and field office staff, PBCAs, and PAEs.

We conducted our work between October 2005 and April 2007 in Baltimore, Maryland; New York, New York; Chicago, Illinois; Columbus, Ohio; Los Angeles, California; Houston, Texas; and Washington, D.C., in accordance with generally accepted government auditing standards.

[1]These were Chicago, Illinois; Columbus Ohio; Houston, Texas; Los Angeles, California; and New York, New York (The Bronx).

Appendix II: Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

APR - 5 2007

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Ms. Orice Williams
Director
Financial Markets and Community Investments
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Williams:

Thank you for this opportunity to review and provide comments on the draft report, Project-Based Rental Assistance – HUD Should Update Its Policies and Procedures to Keep Pace with the Changing Housing Market (GAO-07-290). The report contains GAO's assessment of the Department's efforts to preserve its project-based housing and includes a discussion on the: (1) patterns in the volume and characteristics of HUD's Section 8 project-based portfolio; (2) tools and incentives that are available to encourage property owners to stay in the program; and (3) the views of property owners, managers, and industry representatives on HUD's preservation efforts.

Before commenting on the specific recommendations of the report, I would like to note the most significant finding of both the recent HUD study on opt outs and the GAO review was that during fiscal years 2001-2005, owners chose to renew participation in the Section 8 program instead of opting out of the program for 92 percent of the expiring contracts (and 95 percent of the units assisted). The decision to renew occurred during a period when HUD implemented the Congressionally mandated roll back of subsidies paid to reflect true market rent levels. This phenomenal success reflects the aggressive efforts of the Department to preserve affordable rental housing through such initiatives as the Mark-to-Market and Mark-Up-To-Market programs, Section 236 decoupling and the refinancing of Section 202 loans. I am pleased that GAO's report confirmed that the Department was not encouraging opt outs but rather using a variety of tools to induce continued participation, while assuring that subsidy payments are reasonable and that projects are properly maintained.

The Department would concur in the "Results in Brief" comments (draft report page 4) that market conditions such as the ability to seek higher rents by attracting market residents or successfully convert the project to condominiums were the primary factors in an owner's decision to leave or remain in the project-based Section 8 program. While the report contains several positive suggestions for ways that HUD can improve in the delivery of its program, it should be noted that none of the recommendations would deter owners who seek to maximize their economic gain in a "hot" real estate market.

-2-

It also is important to note that the GAO report lacks data on how many of the opt outs that occurred might have been avoided if the proposed recommendations were implemented, and the absence of such analysis makes it difficult to evaluate the expected benefits from implementing these suggestions. Nonetheless, the following responses have been prepared to address the three recommendations outlined in the report:

GAO Recommendation #1: HUD should modify its one-for-one replacement policy for Section 8 units.

The Department's response:

Under existing HUD policy, an owner with an existing contract for, say 100 units, will not be permitted to execute a renewal contract for fewer units—even if the reduction would potentially permit project modernization, increase the supply of large, family units, or otherwise improve the financial feasibility of the project. As noted in the report, the Department faces a great challenge in balancing the need to preserve much needed affordable housing with the sometimes arbitrary requests of property owners to reduce affordable units in their properties. The Department recognizes that, in some instances, this policy may lead to an owner's decision to opt out of the Section 8 program. The difficulty, however, is that revising this policy might save one or two projects from opting out while at the same time lead to a net loss of assisted units.

However, the Department is aware of the need for property owners to create larger units by reducing overall units to accommodate the market demand, especially in elderly housing projects. Therefore, the Department is evaluating that policy to determine what criteria should be established to approve such a request. As stated earlier, the Department is very sensitive to the need for affordable housing units in this country and will be very careful in developing a policy that would reduce affordable units.

GAO Recommendation #2: HUD should address industry concerns for more timely and better targeted OCAF adjustments.

The Department's response:

For the majority of Section 8 renewal contracts, annual rent increases are awarded on the basis of Operating Cost Adjustment Factors (OCAF) that are published at the State level and with a lag of approximately eighteen months. The Department is aware of the industry's concerns regarding the OCAF adjustments, the use of statewide methodology and the inability to deal with emergency situations. Based on the industry's concerns and the need to review the methodology since it has not been revised since its origination, the Department has initiated a review of the OCAF methodology. As part of the review, the Department is looking at actual costs of the HUD portfolio to determine the ramifications of the lag time and the use of the statewide data.

The Department has met with our industry partners to identify a number of potential improvements to the OCAF process, including potentially the publication of factors at a more

-3-

localized level, more timely publication, and even the introduction of a means by which owners can obtain temporary relief in cases where sharp rises in operating cost occur (e.g., the jump in insurance costs after Hurricane Katrina or recent spikes in energy costs). The Department anticipates that the review will be completed and the results announced by the end of fiscal year 2007.

GAO Recommendation #3: HUD should determine if other "unclear and burdensome" policies are contributing to owner opt outs.

The Department's response:

The Department is aware of the industry's concerns regarding late subsidy payments, the administrative costs of managing Section 8 contracts with only a few units, outdated policies and procedures, confusion over HUD requirements under its Limited English Proficiency rule, and alleged inconsistencies in REAC inspections.

The Department acknowledges that Section 8 payments are late from time to time and is continuing to look at ways to improve the payment process. It is important to note that a major cause of late payments each fiscal year is delays in enactment of our annual appropriation. This Administration is committed to continue to improve the payment process and provide periodic updates on our progress and improvements to GAO and the Congress.

HUD has encouraged owners with more than one Section 8 contract to combine their contracts as a way of improving efficient operation, but the Department does acknowledge that projects with a small number of assisted units face a relatively high administrative cost—since the fraud prevention and compliance reporting requirements are the same for all Section 8 projects regardless of size. Efforts to move assistance from project to project have had only limited success, and the GAO report does not contain any specific suggestions on how the administrative costs for very small contracts could be reduced. It is important that an owner provide resident data and information to minimize improper payments and comply with certain requirements to ensure that residents reside in decent, safe and sanitary housing. However, the Department is always willing to look at recommendations when presented to reduce the administrative costs and encourage the continued participation of these projects in our program.

The Department has recently published clarifications with respect to its Limited English Proficiency (LEP) requirements and we will continue to work with our industry partners to assure that this policy can be achieved in a sensible and cost-effective manner.

While the Department continues to hear of some cases where the physical inspection scores provided under the REAC process are inconsistent or factually incorrect, the Department is committed to the process and its objective and statistically based methodology. This process is important as HUD has an obligation to make certain that projects receiving Federal assistance are maintained at the highest standard, and that aggressive enforcement action is fully justified where owners fail to offer "decent, safe and sanitary" housing to the low-income families who benefit

-4-

from our assistance. The implementation of this process has resulted in having less than 300 properties in a portfolio of over 33,00 projects with unsatisfactory physical scores. This process is infinitely superior to any approach previously used by HUD. We also note that the Department solicits feedback from owners and managers on inspection inconsistencies and inspector misconduct, and that a formal appeal process exists to address instances where the owner disagrees with the results of the inspection.

In closing, the Department appreciates the cooperative manner in which the GAO study was conducted and the opportunity to provide comments on this draft report; and if additional information can be provided to you, please contact Charles H. Williams, Deputy Assistant Secretary for Multifamily Housing at (202) 708-2495.

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner

Appendix III: Number of Opt-outs by State in Identified Census Divisions

Region	State	Total Eligible Properties	Total Property Opt-outs	Percentage of Opt-outs	Total Unit Opt-outs
East North Central Division	ILLINOIS	496	29	5.8%	1,381
	INDIANA	393	21	5.3%	781
	MICHIGAN	409	29	7.1%	1,859
	OHIO	940	87	9.3%	3,768
	WISCONSIN	373	26	7.0%	871
East South Central Division	ALABAMA	251	18	7.2%	1,040
	KENTUCKY	360	12	3.3%	310
	MISSISSIPPI	236	2	0.8%	58
	TENNESSEE	301	10	3.3%	301
Middle Atlantic Division	NEW JERSEY	299	36	12.0%	512
	NEW YORK	843	38	4.5%	3,108
	PENNSYLVANIA	494	6	1.2%	127
Mountain Division	ARIZONA	99	6	6.1%	431
	COLORADO	229	17	7.4%	714
	IDAHO	60	6	10.0%	194
	MONTANA	101	1	1.0%	16
	NEVADA	48	12	25.0%	374
	NEW MEXICO	78	0	0.0%	N/A
	UTAH	77	0	0.0%	N/A
	WYOMING	55	0	0.0%	N/A
New England Division	CONNECTICUT	180	9	5.0%	787
	MAINE	103	3	2.9%	39
	MASSACHUSETTS	379	5	1.3%	129
	NEW HAMPSHIRE	84	5	6.0%	163
	RHODE ISLAND	129	5	3.9%	124
	VERMONT	49	0	0.0%	N/A
Pacific Division	ALASKA	22	2	9.1%	63
	CALIFORNIA	1,250	89	7.1%	3,095
	HAWAII	58	9	15.5%	259
	OREGON	150	7	4.7%	112
	WASHINGTON	347	19	5.5%	520

Region	State	Total Eligible Properties	Total Property Opt-outs	Percentage of Opt-outs	Total Unit Opt-outs
South Atlantic Division	DELAWARE	22	0	0.0%	N/A
	DISTRICT OF COLUMBIA	102	14	13.7%	312
	FLORIDA	378	13	3.4%	598
	GEORGIA	302	31	10.3%	1,577
	MARYLAND	293	39	13.3%	2,036
	NORTH CAROLINA	480	15	3.1%	428
	SOUTH CAROLINA	233	12	5.2%	317
	VIRGINIA	209	22	10.5%	1,827
	WEST VIRGINIA	121	3	2.5%	55
West North Central Division	IOWA	255	35	13.7%	967
	KANSAS	227	7	3.1%	261
	MINNESOTA	325	11	3.4%	232
	MISSOURI	372	11	3.0%	425
	NEBRASKA	166	4	2.4%	34
	NORTH DAKOTA	148	17	11.5%	362
	SOUTH DAKOTA	120	3	2.5%	70
West South Central Division	ARKANSAS	178	7	3.9%	136
	LOUISIANA	164	3	1.8%	178
	OKLAHOMA	146	2	1.4%	322
	TEXAS	543	48	8.8%	2,492
No Regional Designation	GUAM	1	0	0.0%	N/A
	MICRONESIA	2	2	100.0%	11
	N MARIANAS	4	0	0.0%	N/A
	PUERTO RICO	155	16	10.3%	1,396
	VIRGIN ISLANDS	8	0	0.0%	N/A
		13,847	**824**	**6.0%**	**35,172**

Source: GAO analysis of HUD data.

Appendix IV: Number of Opt-outs by Metropolitan Area for the 3 Census Divisions with the Highest Percentage of Opt-outs

Region	State	Metro Area	Number Properties	Number Units
East North Central Division	ILLINOIS	CHICAGO IL	26	1,209
	ILLINOIS	DAVENPORT-MOLINE-ROCK ISLAND IA-IL	1	76
	ILLINOIS	NOT IN METRO AREA	1	48
	ILLINOIS	PEORIA-PEKIN IL	1	48
	INDIANA	BLOOMINGTON IN	1	27
	INDIANA	EVANSVILLE-HENDERSON IN-KY	1	40
	INDIANA	FORT WAYNE IN	1	94
	INDIANA	GARY IN	1	65
	INDIANA	INDIANAPOLIS IN	12	348
	INDIANA	LAFAYETTE IN	1	79
	INDIANA	LOUISVILLE KY-IN	1	65
	INDIANA	NOT IN METRO AREA	3	63
	MICHIGAN	ANN ARBOR MI	2	394
	MICHIGAN	DETROIT MI	17	1,191
	MICHIGAN	FLINT MI	1	33
	MICHIGAN	GRAND RAPIDS-MUSKEGON-HOLLAND MI	3	75
	MICHIGAN	JACKSON MI	1	19
	MICHIGAN	KALAMAZOO-BATTLE CREEK MI	2	58
	MICHIGAN	LANSING-EAST LANSING MI	1	23
	MICHIGAN	NOT IN METRO AREA	2	66
	OHIO	AKRON OH	5	145
	OHIO	CINCINNATI OH-KY-IN	46	1,397
	OHIO	CLEVELAND-LORAIN-ELYRIA OH	11	702
	OHIO	COLUMBUS OH	7	204
	OHIO	DAYTON-SPRINGFIELD OH	4	426
	OHIO	MANSFIELD OH	1	32
	OHIO	NOT IN METRO AREA	11	728
	OHIO	TOLEDO OH	1	34
	OHIO	YOUNGSTOWN-WARREN OH	1	100
	WISCONSIN	EAU CLAIRE WI	1	21
	WISCONSIN	MADISON WI	3	118
	WISCONSIN	MILWAUKEE-WAUKESHA WI	11	422
	WISCONSIN	MINNEAPOLIS-ST. PAUL MN-WI	1	6
	WISCONSIN	NOT IN METRO AREA	9	246

Region	State	Metro Area	Number Properties	Number Units
	WISCONSIN	WAUSAU WI	1	58
Pacific Division	ALASKA	NOT IN METRO AREA	2	63
	CALIFORNIA	BAKERSFIELD CA	2	39
	CALIFORNIA	CHICO-PARADISE CA	3	77
	CALIFORNIA	FRESNO CA	5	272
	CALIFORNIA	LOS ANGELES-LONG BEACH CA	16	580
	CALIFORNIA	MODESTO CA	1	44
	CALIFORNIA	NOT IN METRO AREA	3	15
	CALIFORNIA	OAKLAND CA	9	431
	CALIFORNIA	ORANGE COUNTY CA	3	179
	CALIFORNIA	REDDING CA	1	48
	CALIFORNIA	RIVERSIDE-SAN BERNARDINO CA	4	206
	CALIFORNIA	SACRAMENTO CA	20	428
	CALIFORNIA	SAN DIEGO CA	3	176
	CALIFORNIA	SAN JOSE CA	1	79
	CALIFORNIA	SAN LUIS OBISPO-ATASCADERO-PASO ROBLES CA	1	22
	CALIFORNIA	SANTA CRUZ-WATSONVILLE CA	1	110
	CALIFORNIA	SANTA ROSA CA	3	134
	CALIFORNIA	STOCKTON-LODI CA	4	101
	CALIFORNIA	VALLEJO-FAIRFIELD-NAPA CA	4	78
	CALIFORNIA	YOLO CA	4	52
	CALIFORNIA	YUBA CITY CA	1	24
	HAWAII	HONOLULU HI	8	159
	HAWAII	NOT IN METRO AREA	1	100
	OREGON	NOT IN METRO AREA	3	17
	OREGON	PORTLAND-VANCOUVER OR-WA	3	87
	OREGON	SALEM OR	1	8
	WASHINGTON	BREMERTON WA	3	89
	WASHINGTON	NOT IN METRO AREA	3	75
	WASHINGTON	OLYMPIA WA	2	69
	WASHINGTON	PORTLAND-VANCOUVER OR-WA	1	24
	WASHINGTON	SEATTLE-BELLEVUE-EVERETT WA	6	140
	WASHINGTON	SPOKANE WA	2	72
	WASHINGTON	TACOMA WA	2	51

Region	State	Metro Area	Number Properties	Number Units
South Atlantic Division	DISTRICT OF COLUMBIA	WASHINGTON DC-MD-VA-WV	14	312
	FLORIDA	FORT LAUDERDALE FL	2	166
	FLORIDA	FORT MYERS-CAPE CORAL FL	1	30
	FLORIDA	JACKSONVILLE FL	1	24
	FLORIDA	MIAMI FL	1	48
	FLORIDA	NOT IN METRO AREA	1	5
	FLORIDA	ORLANDO FL	3	48
	FLORIDA	PENSACOLA FL	1	200
	FLORIDA	SARASOTA-BRADENTON FL	1	36
	FLORIDA	TAMPA-ST. PETERSBURG-CLEARWATER FL	2	41
	GEORGIA	ATHENS GA	2	19
	GEORGIA	ATLANTA GA	21	1,445
	GEORGIA	NOT IN METRO AREA	1	8
	GEORGIA	SAVANNAH GA	7	105
	MARYLAND	BALTIMORE MD	21	961
	MARYLAND	COLUMBIA	1	35
	MARYLAND	HAGERSTOWN MD	3	141
	MARYLAND	WASHINGTON DC-MD-VA-WV	14	899
	NORTH CAROLINA	CHARLOTTE-GASTONIA-ROCK HILL NC-SC	1	100
	NORTH CAROLINA	GREENSBORO—WINSTON-SALEM—HIGH POINT NC	4	132
	NORTH CAROLINA	NOT IN METRO AREA	4	37
	NORTH CAROLINA	RALEIGH-DURHAM-CHAPEL HILL NC	6	159
	SOUTH CAROLINA	AUGUSTA-AIKEN GA-SC	1	26
	SOUTH CAROLINA	CHARLESTON-NORTH CHARLESTON SC	2	24
	SOUTH CAROLINA	COLUMBIA SC	2	56
	SOUTH CAROLINA	GREENVILLE-SPARTANBURG-ANDERSON SC	4	61
	SOUTH CAROLINA	NOT IN METRO AREA	2	38
	SOUTH CAROLINA	SUMTER SC	1	112
	VIRGINIA	LYNCHBURG VA	1	149
	VIRGINIA	NORFOLK-VIRGINIA BEACH-NEWPORT NEWS VA-NC	8	567
	VIRGINIA	NOT IN METRO AREA	4	369
	VIRGINIA	RICHMOND-PETERSBURG VA	3	565
	VIRGINIA	WASHINGTON DC-MD-VA-WV	6	177
	WEST VIRGINIA	CHARLESTON WV	1	23

Region	State	Metro Area	Number Properties	Number Units
	WEST VIRGINIA	NOT IN METRO AREA	1	8
	WEST VIRGINIA	PARKERSBURG-MARIETTA WV-OH	1	24
			467	**19,859**

Source: GAO analysis of HUD data.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Orice M. Williams, (202) 512-8678, williamso@gao.gov

Staff Acknowledgments

In addition to the individual named above, Andy Finkel, Assistant Director; Grace Haskins, Michelle Bracy, Emily Chalmers, Mark Egger, Charlene Johnson, Alison Martin, John McGrail, Marc Molino, and Roberto Piñero made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548