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Report to the Chairman, Legislation
and National Security Subcommittee,
Committee on Government Operations,
House of Representatives

May 1991

AIR FORCE HOUSING

Proposal for Financing Improvements to Family Housing



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**National Security and
International Affairs Division**

B-243535

May 21, 1991

The Honorable John Conyers, Jr.
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your request, we reviewed an Air Force proposal for financing housing units for military families. The proposal, entitled DOD Report on Alternate Methods of Providing Housing, also known as the Capehart Report, is intended to provide a timely and cost-effective method for financing both the construction of new housing and the renovation of existing housing. Our objective was to determine the feasibility of this proposal's being approved under current federal budget guidelines.

Results in Brief

Officials of the Office of Management and Budget (OMB) told us that the Capehart proposal would not be approved because of the federal budget guidelines in the conference report accompanying the Omnibus Budget Reconciliation Act of 1990. On the basis of our analysis, we believe that OMB's objection to the Capehart proposal is warranted under these guidelines. This guidance requires that the full amount of a project's obligation be accounted for in the same year that the obligation is incurred. In contrast, the Capehart proposal is based on a "buy now and pay later" concept.

Background

The Capehart Report, issued in May 1988, found that 34 percent of military families were living in military-owned and -operated housing that did not meet housing standards. In the Air Force alone, the report identified 80,000 housing units requiring major improvements. In December 1990, the Air Force reduced this figure to 67,000 units after considering projected base closures.

Air Force Proposal Is Not Consistent With Federal Budget Guidelines

Air Force officials we spoke with recognized that using funds appropriated through the normal budget process was the preferred method of financing the needed housing units. However, these officials stated that recent requests for appropriation increases had not been granted and believed that the existing budget restrictions made future increases in such appropriations unlikely. They also believed that additional units would deteriorate unless funds became available in a timely manner.

Because the level of appropriated funds was not adequate to perform the number of needed improvements, the Air Force proposed the Capehart financing plan to supplement the appropriated funds received. The proposal is essentially an installment purchase plan that obtains financing through long-term mortgages. The Air Force proposal maintains that this financing authority could, with some changes, be an economically attractive solution to current housing problems. An essential element of the program is that the budget authority is not accounted for in the year that funds are authorized, but rather in the year that the payments are due.

OMB officials, however, have rejected this proposal as inconsistent with current budget guidelines, and we believe this rejection is justified. The guidelines were developed by the House and Senate Committees on the Budget, the Congressional Budget Office, and OMB. The guidelines state that when a bill provides the authority for an agency to enter into a contract for the purchase, lease-purchase, or lease of a capital asset, budget authority will be accounted for in the year in which the budget authority is first made available in the amount of the government's total estimated legal obligations.

Scope and Methodology

We interviewed officials of the Air Force; the Office of the Comptroller, Office of the Secretary of Defense; the Office of Management and Budget; and the House Budget Committee. We also reviewed the economic analyses contained in the Capehart Report. We did not verify the report's conclusion that there was an aging housing inventory that needed renovation or the assumption that current appropriated funding levels were inadequate to meet that need in a timely manner.

We performed our review from February through March 1991 in accordance with generally accepted government auditing standards. We did not obtain official comments on this letter from the Air Force, but we did discuss its contents with Air Force personnel.

Unless you announce its contents earlier, we plan no further distribution of this report until 15 days from the date of this report. At that time, we will send copies of this report to the Secretary of Defense, the Secretary of the Air Force, and the Directors of the Office of Management and Budget and the Congressional Budget Office. Copies will also be made available to others upon request.

Please contact me at (202) 275-3990 if you or your staff have any questions. Major contributors to this report were George E. Breen, Jr., Assistant Director; William J. Rigazio, Senior Evaluator; David E. Moser, Evaluator-in-Charge; Charles W. Perdue, Economist; and Richard R. Perruso of our Office of General Counsel.

Sincerely yours,



Paul L. Jones
Director, Defense Force Management Issues

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