A Paper by Staff of the

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

for the Millenial Housing Commission

February 2002

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WHAT DIFFERENCE COULD MHC'S PROPOSALS MAKE?

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This document was prepared by Academy staff based primarily on views expressed in previously issued Academy reports.

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INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD) has been a troubled agency for at least two decades. In the mid-1990s, the department's troubles were so serious that GAO gave it a first-ever whole department "high risk" designation. The perception became widespread—both inside and outside the government—that HUD simply doesn't work.

This situation has attracted many reformers. The Millennial Housing Commission (MHC) is by no means the first. So MHC has an opportunity to draw on other recent reform efforts to help it understand what needs to be done and how to do it successfully. The purpose of this paper is to examine how MHC's main reform proposals might affect the future organization and management of HUD. The question is, "What would HUD look like if the Commission's recommendations were to be implemented?"

Prepared by the staff of the National Academy of Public Administration (Academy), this paper is based on published Academy Panel reports and other information in the public domain, but it does not include any new research and does not make new recommendations. It was agreed at the outset that those steps were beyond the scope of this paper because they would have required a larger study, more time, and appointment of a new Academy Panel.

This paper begins by summarizing some of the main draft MHC proposals. It also examines some recent HUD reform efforts and related perspectives from non-housing reports. From those reports, the paper extracts eight principles for assessing HUD reform proposals and the organizational and management implications of MHC's potential recommendations to Congress. Finally, it explores how implementation of the

Commission's potential recommendations may affect the future shape of HUD. This paper is intended to provide helpful information for MHC's use as it weighs its recommendations.

MHC PROPOSALS

Based on a review of several working papers supplied by MHC staff, four major proposals appeared to be among those under consideration by the Commission. They would introduce into the federal housing arena (1) more tax-exempt state housing bonds (for new private capital funds for housing production), (2) state coordination of aid from diverse federal agencies in order to promote key HUD goals of self-sufficiency among individuals and families, and sustainable communities, (3) spin-offs of individual public housing projects into independently administered mortgage-type enterprise funds subject to private-sector financial disciplines, and (4) spinning off of a consolidated Federal Housing Administration and Government National Mortgage Association (FHA/GNMA) into an independent government corporation within HUD. All of these proposals appear to be based on the idea that success depends on relieving assisted-housing providers of unnecessary HUD controls. MHC's rationale for each of these proposals follows:

- **State Housing Bonds.** The states are already administering a tax-exempt bond program which has resulted in making new low-cost private capital available for affordable housing. MHC's new proposal would build upon this success by raising (or even removing) existing federal caps on the number of bonds states may issue with tax-exempt status. The private bond market, not HUD, would determine the fiscal soundness of the program, while the market and private bond rating services would set interest rates. This expanded resource could target priorities such as the provision of more affordable housing in areas where there is economic growth. No more than 20 percent of the households financed by this method would be required to be low-income.

- **State Coordination of Federal Aid.** Increasingly, housing aid is an integral part of helping families and individuals become self-sufficient and self-reliant. For example, in many cases, the success of welfare reform relies on housing aid. Yet, given the different sets of regulations involved, it remains difficult to conduct a coordinated and timely channeling of funds to families and individuals from multiple federal housing, community development, health, human services, labor, and transportation programs. This MHC proposal would give state governors and localities who receive grants from eight specified programs administered by four different federal departments[1] the authority to set aside up to 15 percent of what they receive for comprehensive community development projects. It would also authorize the governor to waive certain federal regulations when necessary to overcome barriers to using these programs together. Although waivers have been useful in state welfare and Medicaid reform, their approvals have often required extensive and lengthy reviews by relevant federal departments. By transferring waiver authority to the governors, subject to a thirty-day federal agency review and comment period, this proposal would cut federal red tape.

- **Public Housing Project Spin-Offs.** Under this proposal, MHC envisions that Public Housing Authorities (PHAs) would be encouraged to put each of their individual properties under a separate mortgage-type of financing and borrow whatever funds are necessary to rehabilitate and maintain the property. The loan would be paid back through rents and subsidies, much as PHA budgets are funded. In other words, the private mortgage market would advance whatever rehabilitation money is needed. It would also help manage the project by virtue of the private lender's interest in the ability of the property to attract residents and repay the loan. Commercial bond-rating companies would provide oversight. If one property were to get in trouble, it could fail without pulling down the whole PHA. This would reduce the problem of

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[1] The programs would be Temporary Assistance to Needy Families, Community Development Block Grant, HOME Investment Partnership Program, Workforce Investment, Social Services Block Grant, Child Care Block Grant, and transportation. The departments would be HUD, HHS, DOL, and DOT.

"contagious system failures" where each failing property acts as a drag on the whole PHA.

- **FHA/GNMA Consolidation and Spin-Off.** This MHC proposal assumes that the combined organization would be financially self-supporting. Both agencies actually have been earning revenues that have consistently generated surpluses. However, those surpluses have been unavailable for maintaining services that are in step with the changing marketplace. Consequently, the agencies have lagged in hiring and retaining qualified personnel and in improving service. This MHC proposal would make the generated revenues available for program purposes and would reduce the level of federal agency regulation—in effect giving agencies more capacity to stay in tune with the marketplace. This proposal is consistent with the Academy's recommendation in *Renewing HUD*.[2] The corporation would remain within HUD, but it would not be subject to many of the standard financial, staffing, and management constraints that apply to FHA and GNMA.

In light of these four proposals, MHC's vision appears to be one where HUD has significantly less responsibility for the federal housing effort. The central goal seems to be to free-up major federal housing programs to follow the dictates and disciplines of the private money markets, and to give governors a stronger role in key decisions that HUD would otherwise be expected to make.

MHC's charge is more restricted than the other reform efforts because it focuses exclusively on the housing part of HUD's mission. Also, MHC clearly seems to take a different approach. While the reform proposals described below, have concentrated on fixing HUD, MHC appears to see chances for program improvements largely through privatization and devolution. There may be opportunities to combine these different approaches as HUD is reshaped to meet future needs.

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[2] National Academy of Public Administration, *Renewing HUD: A Long-Term Agenda for Effective Performance*, July 1994.

RECENT PROPOSALS FOR IMPROVING HUD

The earlier HUD reform proposals which are examined here are drawn from the Academy's 1994 report, *Renewing HUD: A Long-Term Agenda for Effective Performance*; HUD's own *2020 Management Reform Plan* (1997); a series of four Congressionally mandated NAPA reports (1999-2000),[3] and HUD's most recent *Strategic Plan for FY 2000-2006* (September 2000). A summary of these proposals, as well as three other relevant Academy studies follows.

Renewing HUD

Renewing HUD: A Long-Term Agenda for Effective Performance envisioned HUD as reorganized, top to bottom, around consolidated and simplified programs that would make it easier to manage and more capable of effective, efficient, and accountable performance. Clarity of mission and enhanced institutional capacity to fulfill its mission formed the heart of this vision. The report was concerned primarily with management and organization for performance, not with HUD's programs themselves. The recommendations were meant to reverse an increasingly debilitating decline in HUD's performance.

The 1994 Academy Panel found that:

- HUD was at a crossroads
- HUD's staff and budget had been declining for 15 years even as department programs were increasing, HUD's management flexibility was being sharply curtailed, its financial exposure was increasing, and its staff morale was waning
- HUD's reform efforts were often sidetracked by changes in political leadership

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[3] The Academy studied four topics: procurement systems, compliance with the *Government Performance and Results Act of 1993* (GPRA), resource estimation, and assisted housing oversight.

Accordingly, the Panel recommended:

- New authorizing legislation to rationalize and simplify the department's mission and programs in order to make them more manageable; these steps included consolidating many grants into just ten major programs

- Alignment between the department's new mission and programs and its management capability

- Demonstrated competence to overcome the department's "performance deficit"

- A more flexible, less rule-bound approach toward managing for results

- Moving program decision-making to a programmatically integrated field structure linked to assisted communities

- Routine processing and paperwork centralized into efficient "back room" processing centers

- FHA moved into an independent corporate structure within HUD, and potentially combined with GNMA, in order to align these mortgage market operations more closely with market movements

- Major management system reforms to make the department more efficient and effective, with the emphasis on:
  - Financial management
  - Integrated management information systems
  - Estimates and realignments of staff needs
  - Human resources management

- Appointing an Under Secretary for Management and taking a new strategic approach to long-term management

The Panel noted that consistency and continuity of management systems and processes from one Secretary to another "is crucial in HUD's reconstruction."[4] It recommended a long-term, institution-building agenda aimed at creating recognized program and career-

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[4] *Renewing HUD,* p. vii.

staff excellence, stability and integrity in program administration, and constructive partnership with the nation's communities.

The Panel established the following ten principles as the basis for developing recommendations. The first five are designed to enhance program delivery; the rest build institutional capacity.

Principles Related to Program Delivery

1. A clear mission is best derived from broad enabling legislation under which a department's activities can be organized, rather than a myriad of individual programs created by many different statutes.

2. Collaborative partnerships rather than rule-based decision-making would enable HUD to deliver programs that are well integrated with community needs.

3. HUD's programs accomplish the most when they are integrated in headquarters and coordinated and administered at the community level.

4. The most effective decision-making structure is one that permits decisions to be made closest to the community.

5. The information and reporting requirements HUD imposes on communities should be the minimum needed to support program needs efficiently.

Principles Related to Institutional Capacity

6. The lengthy timeframe needed for substantive organizational change demands sustained leadership, a comprehensive strategy, and the incentives to support it.

7. Sound management systems should facilitate program implementation and free HUD employees' time (managers' and staff) to work directly with communities.

8. Effective organizations plan, set milestones, monitor progress, and are willing to change course as necessary.

9. The mix of resources—staff, contractors, training, travel dollars, etc.— should be driven by the optimal means of delivering HUD's services to communities unfettered by arbitrary external constraints.

10. Advances in information technology and restructured work methods will lead to changes in how certain work is organized and accomplished, and in the number of staff needed to do it.

Because of HUD's past problems, the Panel recommended that "If, after five years, HUD is not operating under a clear legislative mandate and in an effective, accountable manner, the President and Congress should seriously consider dismantling the department and moving its core programs elsewhere."

A year later, three Academy Fellows who had been involved in establishing previous government corporations prepared supplemental comments on draft legislation that would consolidate FHA and GNMA and transform them into a wholly owned government corporation within HUD.[5] They found that these HUD agencies fully met the criteria for independent corporate status and would benefit in several ways from the consolidation and transformation. Among the improvements that could be expected were: improved effectiveness in meeting the business-type mission; better financial accounting and administration; greater freedom from Congressional micromanagement and burdensome government personnel regulations; and, the ability to borrow money to meet capital needs in a timely manner and use revenues to improve operations.

HUD's own management reform plan, which is discussed next, addressed many of the issues raised in *Renewing HUD,* and proposed similar program consolidations. However, it did not follow many of the Academy's organizational and management

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[5] Alan L. Dean, Harold Seidman, and Thomas H. Stanton, *Proposed Legislation to Create a Federal Housing Corporation: Comments and Recommendations*, National Academy of Public Administration, September 1995.

recommendations. In fact, it proceeded with a field structure that the Academy had warned against.

HUD 2020 Management Reform Plan

By 1997, when HUD issued its *HUD 2020 Management Reform Plan* (MRP 2020), the department had lost much of its credibility with Congress, its customers, and its service delivery partners. Thus, according to HUD, the primary purpose of the plan was to get its own house in order as rapidly as possible, rebuild its mission performance capacity, get off GAO's high-risk list, regain its credibility, and demonstrate its relevance and effectiveness. The department described MRP 2020 as "a fundamental management overhaul" resulting from "a combination of significant organizational changes, as well as proposed legislative reforms."[6]

Meanwhile, Congress targeted HUD for elimination. HUD responded by agreeing to reduce its staff by as much as half, become much more efficient and remove the cloud of waste, fraud, and abuse that hung over it. This strategy was designed to replace the perception of HUD as inept with one of competence and integrity. HUD also promised to become more relevant to major mainstream issues by helping depressed communities take part in America's booming economy and making welfare reform work.

In order to achieve these things, HUD redefined its mission as two distinct, yet interrelated ones: (1) empower people and communities to improve themselves and succeed in today's time of transition; and (2) restore the public trust by achieving and demonstrating competence.

HUD's new Mission 1 included these main elements:

- Using bottom-up, community-driven partnerships to develop strategies and deliver programs

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[6] "Executive Summary," p. 1.

- Nurturing self-sufficiency and self-reliance in families and individuals
- Collaborating with other federal agencies
- Harnessing market forces

HUD's new Mission 2 included these main elements:

- Instilling HUD with an ethic of competence and excellence
- Delivering performance and product, instead of process and perpetuation
- Eliminating waste, fraud, and abuse
- Consolidating programs
- Reorganizing, retraining, and realigning staff and resources to achieve long-term missions
- Department-wide integration of financial and information management systems
- Increasing program monitoring and measurement to ensure higher performance

Based on this framework, HUD proposed six major changes:

1. Reorganize by function instead of individual programs, consolidating and privatizing where needed
2. Modernize and integrate HUD's financial management systems
3. Create an Enforcement Authority to restore public trust
4. Refocus and retrain HUD's workforce
5. Establish new performance-based systems for HUD's programs, operations, and employees
6. Replace HUD's top-down bureaucracy with a customer-friendly structure

Congressional reaction to the proposed program consolidations was not positive, so the reforms gravitated toward administrative actions. The main HUD initiatives that moved forward were:

- **Real Estate Assessment Center (REAC)** HUD established REAC to inventory and assess the physical quality, financial and management soundness, and resident satisfaction with all HUD-assisted housing properties (public housing, Section 8 certificates and vouchers, and mortgage insurance). Unsatisfactory assessments lead to remedial actions.

- **Troubled Housing Recovery Centers** HUD established two recovery centers to help troubled public housing projects and agencies fix their deficiencies.

- **Departmental Enforcement Center** HUD established a department-wide center to take troubled housing properties from all HUD programs to court when other efforts to overcome deficiencies are unsuccessful.

- **Back Room Processing Centers** HUD established backroom processing centers to achieve more efficient handling of certain routine, high volume activities such as Section 8 payments.

- **81 Field Offices** HUD established and staffed these offices (up from 51) to put a larger share of the HUD staff into direct contact with the public. Some were reconfigured as store-fronts, which HUD believed would make them more accessible to program constituents, local officials, and the public.

- **Improved Financial, Grant, and Management Information Systems** HUD partially implemented these systems.

- **Procurement System** HUD redesigned and implemented an independent, highly professional, department-wide procurement system.

- **Performance Reporting System** HUD regularized monthly reports from the field. They are based on annual operating plans for implementing reforms and meeting program goals.

- **Resource Estimation System** HUD engaged the Academy to design a new resource estimation system and contracted with a private consulting firm to implement it.

- **Focused Leadership** Given responsibility for several reforms, the Deputy Secretary was put in a position somewhat similar to the Under Secretary for

Management position that *Renewing HUD* recommended. However, since there wasn't any legislatively ensured stability from one Administration to another as recommended by the Academy, there was no assurance that the management responsibilities of the Deputy Secretary would continue.

A great deal of effort was put into these reforms, and much was accomplished. GAO subsequently removed the Department's whole-agency high-risk designation. Nevertheless, HUD's single-family mortgage insurance and rental housing assistance programs remain on the high-risk list, and controversy continues to surround some of HUD's other MRP 2020 reforms.

Follow-Up Academy Studies

As HUD began to implement MRP 2020, Congress and the Secretary asked the Academy to independently study the department's procurement system, compliance with GPRA, and human resource estimation capabilities.[7] They also asked it to study alternative approaches to evaluating the effectiveness of public housing agencies and other providers of HUD-assisted housing.[8] Combined, these studies produced four new Academy reports on implementing selected portions of MRP 2020. Discussion of these four reports follows:

- **Procurement Reform** This reform was a key to the effort to remove HUD from GAO's high-risk designation. As the Academy's work progressed, the Secretary appointed a highly respected professional as the department's Chief Procurement Officer, reporting directly to the Secretary, and the Academy began to work interactively with the department to help spur more rapid

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[7] *Conference Report on the FY 1997 Disaster Relief Supplemental Appropriations Act*. The Conference Report on HUD's FY 1998 appropriation added the study of HUD's compliance with the *Government Performance and Results Act of 1993* (GPRA). As the Academy got into the performance measures part of these studies, it expanded its focus to cover ways in which HUD could more fully implement all the planning and reporting requirements in GPRA.

[8] Section 563 of the *Quality Housing and Work Responsibility Act of 1998* (PL 105-276).

reform. By the time the Academy report was finished, the department had initiated many needed reforms. They included:

- o identifying procurement as a mission-critical activity and establishing a Contract Management Review Board of senior leadership to provide guidelines, review plans, set standards, and facilitate procurements
- o establishing and training integrated project teams to perform high-priority procurements in greatly reduced time frames
- o reorganizing procurement office responsibilities to ease workload problems and give the procurement process more specialization
- o focusing on performance-based contracting to ensure that the agency is pursuing the right outcomes in its procurements and achieving desired results
- o establishing full-time contracting officer technical representatives to ensure that contractors provide desired results

The Academy report recommended conducting an independent study in several years to examine whether the reforms were sustained. Amidst some indicators that not all of the reforms were being maintained, the GAO initiated a review in late 2001.

- **Resource Estimation** As the department undertook major reductions in staff along with major organizational and management changes, it found itself without the means to estimate the workloads for its organizational units and reallocate qualified personnel to them. Prior systems for this purpose had been discontinued a few years earlier.   Thus, the Academy was asked to design a new resource management system which allowed HUD to align its resources with its priorities. The resulting report[9] recommended that HUD:

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[9] National Academy of Public Administration, *Aligning Resources and Priorities at HUD: Designing a Resource Management System*, October 1999.

o Adopt a resource management approach based on records-based estimates of the effort needed to perform assigned work where it is assigned to be done

o Include all departmental responsibilities in the work definition and resource estimation system

o Identify what work can be done with current human resource levels and what must be done less often, not done at all, or contracted out

o Include an accurate resource validation component to measure what employees actually do

The Academy recognized that establishing such a system would take a significant amount of time, effort, and short-term investment. However, it also identified the following long-term benefits that could be expected.

o A clearer picture of how work is accomplished under MRP 2020, including which efficiencies had already been achieved and which could arise by consolidating some work activities into centers and reengineering others

o Better information about work and staff distribution, which would permit the most effective department-wide staff deployment

o Greater ability to assess how new factors, such as changes in mortgage interest rates or an expanded homeless program, affect the department's workload and workforce

o More capacity to express the relationship between HUD's stated goals and objectives and its resource needs

The Academy worked with an advisory committee of HUD personnel to design the new resource management system and elicit acceptance of it by the department. Subsequently, the Academy was asked to develop a more detailed implementation plan that was based upon pilot testing at two

locations.[10]   HUD then contracted with a commercial consulting firm to implement the resource estimation system department-wide. The system was installed in 2001.

- **GPRA in HUD.** As the Academy began to study HUD's performance measures, it soon became clear that the goals and objectives of the department's GPRA plans were not outcome oriented enough to serve as the basis for adequate performance measures. In addition, HUD's plans did not address the full range of the department's programs, and they exhibited other deficiencies. Congress rated them below average.

Thus, the Academy recast HUD's strategic planning framework to make it more outcome-oriented and inclusive of all HUD responsibilities. Then it convened four groups of HUD constituencies to obtain their views and suggestions.[11]   Several rounds of consultations yielded a much-improved framework that HUD adopted and Congress treated more favorably. A method for converting the new goals and objectives into quantifiable performance measures was also recommended and illustrated. Additional recommendations for further improvements in the department's GPRA planning and management process were:

- o Establish a more participatory and consultative strategic planning process
- o More directly link the strategic plan to the field office annual operating plans
- o Increase leadership and staff support for the GPRA process
- o Place emphasis on developing measurable goals and objectives, and the high quality data needed to measure them (including data to

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[10] *Implementation Plan: Resource Estimation and Allocation Process,* March 2000.
[11] National Academy of Public Administration, *GPRA in HUD: Changes for the Better*, July 1999.

measure the delivery of HUD-supported services by non-federal partners)

- o Establish clearer linkages between the department's resources and its goals and objectives

- o Better coordinate the department's goals, objectives, and performance measures with those of other federal agencies having responsibility for similar program outcomes

- **Assessing HUD-Assisted Housing.** One of the highest risks in HUD was that it did not have an inventory of its assisted housing units or any way of assessing their condition, management, or financial vulnerabilities. Episodic revelations of unacceptable conditions in some units tainted the public and congressional views of the whole inventory. Thus, HUD's 2020 Management Reform Plan stressed establishing REAC to identify the substandard units in all of the department's programs, and related mechanisms for ensuring improvements. About one year after implementation began, the Academy was requested by Congress to study a range of alternatives to HUD's assisted housing oversight system. The request stemmed from concerns by many local public housing authorities (PHAs) that the REAC system was producing incorrect and damaging scores. The Academy study did not dispute the need for such a system, but it found that REAC was being put in place so fast that consultations with HUD's service delivery partners—especially the PHAs— had been inadequate. Moreover, some scores were incorrect; the appeals process was inadequate; some parts of the system had been put into effect before they could work as advertised; and, the PHAs had strongly resisted HUD's implementation of the housing assessment system.[12] Thus, the Academy Panel recommended that HUD:

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[12] National Academy of Public Administration, *Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs*, December 2000.

- o Significantly modify its evolving housing assessment system, using elements from other approaches to make it more complete, more acceptable to the housing industry, and less burdensome
- o Make certain urgent operational improvements in the existing system
- o Implement refinements by making a series of longer-term systemic improvements for greater simplicity, flexibility, and focus on results
- o Transform system governance into a highly consultative process that features a partnership with the housing industry and residents

HUD Strategic Plan for FY 2000-2006

HUD's current Strategic Plan has a single outcome-oriented mission to "Promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination." This mission is complemented by a vision of HUD as "a high-performing, well-respected, and empowering partner with all levels of government, with the private sector, and with families and individuals." This combination makes HUD responsible for outcomes that benefit people and commits the department to working effectively with many partners to achieve them. HUD's simplified five-goal strategic framework provides the department with a more manageable structure for administering its far-flung responsibilities, as the Academy recommended in *Renewing HUD* and *GPRA in HUD*. Fourteen strategic objectives complement these five broad goals. For example, Strategic Goal 1 (which addresses the availability of decent, safe, and affordable housing) is supported by three Strategic Objectives: increased homeownership, increased availability of rental housing, and increased quality, safety, and disaster resistance in HUD-assisted housing. The multiple programs that reflect these objectives can all be assessed in terms of their contributions to comparable performance measures. The new plan discusses HUD's relationships with service delivery partners, customers, and other stakeholders, and its feedback from them, as well as its management processes, resource allocations, interagency coordination, and use of program evaluations to improve program effectiveness. Although it is still not one

of the government's best, HUD's new strategic plan is much improved. Needs for more improvements also are identified.

Relevant Proposals from Three Other Academy Reports

Although they are not directly about housing, three other Academy reports offer relevant perspectives about assessing the MHC proposals. The reports reflect studies of the Veterans Administration (now a department), the Federal Wildland Fire Management Policy, and the Environmental Protection Agency.

The Veterans Administration study considered whether the agency should become a department with full Cabinet status.[13]   It stated guidelines for structuring any federal cabinet department as follows:[14]

- **Provide all the authority of the department to the Secretary**, so that he or she may provide for its implementation in the most suitable way as conditions change over time.
- **Give the Secretary adequate flexibility** to organize and allocate resources, including the field structure of the department, to meet changing needs and locations of the department's activities.
- **Establish clear lines of authority and responsibility** between the Secretary and the department's senior line officers who have service delivery and operating functions.
- **Establish an appropriate balance between staff officials** who advise the Secretary **and senior line officers** responsible for service delivery and operations.
- The departmental structure should **clearly identify the responsibilities of the top executive team**, both within the department and with respect to

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[13] National Academy of Public Administration, *Evaluation of Proposals to Establish a Department of Veterans Affairs*, March 1988.
[14] *Ibid*, pp. 23-24. The guidelines are paraphrased in the interest of clarity.

external parties such as the Congress, other agencies, the department's constituencies, and the general public.

- The department's structure should **facilitate provision of full and current information** on and critical evaluation of key elements of strategic policy and planning, resource allocation trade-offs, program effectiveness, the quality of service delivery, and external relationships.

- The Secretary should have the greatest possible latitude in ensuring that **all of the functions of the department are being carried out with professional quality and integrity.** These functions include service delivery as well as internal supporting functions such as financial management, personnel management, procurement and supply, construction, auditing, inspection, and management information systems.

- The structure should provide an appropriate **balance between political leadership and the career staff** to ensure competence and continuity in operational management and the delivery of services.

- **The structure of an executive department or agency should not be changed without clear evidence that it is not working.**

The Academy's study of wildland fire policy[15] addressed policy implementation deficiencies in a situation where policy calls for significant changes in organizational cultures and established practices, and five major agencies in two different departments are jointly responsible for policy implementation. This highly challenging policy implementation environment, had slowed progress over the preceding six years. The study's recommendations[16] stressed the need for:

- a broad leadership, accountability, and involvement mechanism that encompasses all of the key parties whose cooperation is required for successful implementation
- sound management systems

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[15] National Academy of Public Administration, *Managing Wildland Fire: Enhancing Capacity to Implement the Federal Interagency Policy*, December 2001.
[16] Summarized on p. xvi of *Ibid.*

- a rich learning environment for brining lessons learned from experience to bear from both inside and outside the government
- stakeholder involvement at the point of service delivery, and an appropriately qualified, prepared, and deployed workforce

The Academy's study of EPA's environmental permitting addressed the introduction of a new "environmental justice" requirement into the agency's mission.[17] Like the new wildland fire policy, this is a case where traditional practices and organizational cultures need to be changed. The study's recommendations stress the need for agency leadership and accountability to integrate the new policy into EPA's mission, facilitate participation by the affected parties, and establish joint priority-setting by EPA, state and local governments, and high-risk communities.

The insights from these three studies provide potentially useful advice about the organization and management of a reformed HUD, and tools for helping to guide major HUD policy changes.

Principles for Assessing HUD Reform Proposals

The reports described above suggest the following eight major organization and management principles for helping MHC refine its recommendations:

1. **Focus on customer-oriented outcomes.** Use effective consultation techniques to reach agreement on outcome goals and objectives, establish performance measures, and align programs and resources with efforts to achieve desired outcomes.
2. **Get HUD's role right.** Identify what HUD does well and what other partners can do better—including state and local governments and the commercial and non-profit sectors. Privatization and devolution options are part of this

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[17] National Academy of Public Administration, *Environmental Justice in EPA: Reducing Pollution in High-Risk Communities is Integral to the Agency's Mission*, December 2001.

consideration, as well as integrated partnerships among diverse governmental and non-governmental parties.

3. **Leverage partners.** Work with identified non-federal service-delivery partners to get the most out of the program roles they are best positioned to play.

4. **Demonstrate competence.** Properly resource and empower responsible governmental organizations and other parties, monitor their performance, and get results.

5. **Create a learning environment.** Place a high value on maintaining an inquiring and open organizational culture. Use enhanced information systems, program evaluations, and other tools to draw positive lessons from experience both inside and outside the federal government. Organizations that operate this way are coming to be referred to as "learning organizations."[18]

6. **Enhance efficiencies.** Implement program simplifications, process re-engineering, modern management information systems, and other similar methods to get faster, better, and cheaper results.

7. **Establish clear leadership responsibilities and accountability for results.** Hold identifiable parties responsible for results. Provide special leadership and accountability mechanisms for meeting interagency and intergovernmental responsibilities.

8. **Reduce risks.** Wherever possible, eliminate waste, fraud, and abuse.

In using these principles to assess reform proposals, a key question is whether any given proposal appropriately considers them from both policy and practical implementation perspectives. It has been more than five years since the Academy's 1994 Panel recommended giving consideration to dismantling HUD if, by that time, it had not become better focused, higher performing, and more flexible and accountable. Clearly, improvements have been made in the department since 1994, and the GAO dropped the whole-department high-risk designation of HUD. However, the key question of whether

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[18] David R. Schwandt, "Implementing New Policy: A Knowledge Creation Process," *New Tools for Managing Wildland Fire,* Appendix B, National Academy of Public Administration, 2001.

the changes that have been implemented over the past eight years have made HUD competent enough to carry out its responsibilities remains unanswered as MHC considers a new vision for the department.

ELEMENTS OF A NEW VISION FOR HUD

In light of this background, we return to the original question that MHC posed to the Academy: what would HUD look like if the MHC proposals were to be implemented? Clearly, HUD would be smaller; federal housing goals would be established less by HUD and more by the mortgage and bond markets as well as by state housing agencies. The new FHA/GMNA corporation, state housing agencies, and PHAs, being more responsive to market conditions and better equipped, would be in a stronger position to step up to their responsibilities. However, HUD would be a different department. Therefore, a major rethinking of HUD's role in housing would be in order. Several of the factors that would need to be considered follow.

Clarity of Legislative Mandate

NAPA's 1994 report, *Renewing HUD*, made a key point about program overload. It also noted that the department lacked a clear legislative mandate. According to the report, the situation "saps HUD's resources, muddles priorities, fragments the department's workload, creates unreasonable expectations, and confuses communities."[19]

When Congress responds to the MHC recommendations, a most important question is whether it will simply superimpose new legislation on HUD or will review and reshape HUD's entire legislative framework, addressing numerous prior recommendations to consolidate HUD programs, and identifying those that can be streamlined or discontinued. Inevitably, HUD's organization will reflect the laws it must administer. Establishing a clearer, simpler legislative framework could be an important first step toward reshaping the department.

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[19] *Renewing HUD*, p. ix.

Administrative Decisions for the New Corporation

Because the FHA program is by far the largest in HUD, its consolidation with GNMA and spin-off as a government corporation would have a substantial impact on the department. Along with its support of department-wide management and research functions, FHA accounts for about half of HUD's budget. If this large piece of HUD were to be removed, a substantial reorganization of HUD might be needed to re-establish a clear role for it (Principle 2) and position it to demonstrate its competence (Principle 4). Also, alternative futures for HUD would need to be considered.

In addition, many decisions would need to be made about the placement and operation of administrative functions to deal with a long list of issues such as those listed below. GNMA, which is already structured as a government corporation, may suggest how to handle some of these issues. Yet, because FHA is so much larger, the GNMA model may not always apply.

- Would the new corporation have its own procurement function or would it rely on the department-wide procurement function? What procurement processes would be followed?

- Would the Information Technology (IT) function continue to be managed at the departmental level with charge-backs to the corporation, or would the corporation manage its own IT functions? If the latter is the case, what would be the relationship to the department's Chief Information Officer?

- Would the corporation's budget be reviewed by the department and submitted as part of the department's budget, or would it be totally independent? What procedures would be used for departmental decision-making on budget matters?

- What procedures would be used for budget execution in the corporation? Would departmental overhead continue to be partially funded from corporate funds? If so, at what level? What changes in appropriation language would

be necessary to implement decisions? How would the corporation relate to the department's Chief Financial Officer?

- Would legal services continue to be provided by the department's Office of General Counsel, or would the corporation have its own attorneys? If the latter is the case, how would corporate attorneys relate to HUD's General Counsel?

- Would the corporation have its own Inspector General (IG)? How would the department's IG relate to the corporation? Would the department's IG office continue to be partly funded by the corporation's funds?

- Would the corporation have its own research function or would research continue at the departmental level? How would funding for research be handled?

- Would there be a need to distinguish between those corporation activities that were initiated before the effective date of new legislation and those implemented since? What organizational arrangements would be necessary to address this issue? What financial arrangements and changes would be necessary in budget development, presentation, and execution?

- Would non-corporate activities (such as oversight of Section 8 multifamily properties) now carried out by the Office of Housing be transferred to the new corporation or elsewhere?

- Would the corporation maintain a field office structure separate from the rest of HUD?

Most likely, this listing represents simply the beginning of the issues that would arise. The details of what would be required to establish the new corporation probably warrant a separate study. Also, there would need to be careful consideration of issues that must be resolved in advance to ensure effective implementation and, perhaps, even more careful procedures for resolving issues. However, this does not mean that the list should be considered a "roadblock" or a reason for not proceeding. Similar situations have been addressed successfully in the past. Yet, care needs to be taken if there is going to be the capacity to carry out assigned responsibilities.

If the MHC proposals lead to the market taking over more of HUD's regulatory role and the states taking over more of HUD's program administration, HUD may need to re-position itself to concentrate more on national R&D, technical assistance, and facilitation (Principle 2). If HUD became more of a "learning" or knowledge-creating organization, it could possibly transition more easily to being largely a coordinator and facilitator (Principle 5).

Management Stability

However these issues are resolved, it is important to the success of the corporation and other Congressional reform initiatives that time be provided to implement them. NAPA's 1994 *Renewing HUD* report stressed the importance of sustaining management leadership and a long-term institution building agenda.[20] To help ensure continuity it recommended establishing an Under Secretary for Management. It did so because of the long-term instability of management systems and organizational structure at HUD. The report also recommended an institution-building agenda to establish "effective and stable core management systems."[21]

Some form of stabilizing mechanism appears to be desirable to preclude these kinds of questions about the new corporation from being re-opened and re-decided differently in four to eight years by a new set of incoming appointees. Such a development would create considerable uncertainty about the corporation's ability to continue functioning effectively.

Implementation of New Programs

The Commission's new proposals for state housing bonds, state coordination of federal aid, and public housing projects that were described earlier raise several implementation questions. As responsibilities are spun-off from HUD to the governors and to the bond/mortgage markets, their competence to handle the spun-off functions (and

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[20] *Renewing HUD*, Chapter Six.
[21] *Renewing HUD*, p. 181.

mechanisms to hold them accountable) would require attention. While the independence of the market underpins MHC's proposals, expectations for coordinated results appear to continue (Principle 3). They create the need for new competencies at the state level that do no exist today to a large extent.   These are competencies to target housing expenditures and to coordinate funds across federal departments and agencies. Supporting such competencies may affect HUD's organization both in Washington and the field.

State Targeting of Housing Funds. Expansion of the tax-exempt state housing bond program calls for two types of targeting: first to the most needy, extremely low-income households; then to areas near jobs, necessary transportation, and educational opportunities. Targeting raises significant questions about accountability (Principle 7) and competence (Principle 4).

The Treasury Department currently oversees of the tax-exempt bond program. Increasingly, the program is becoming the main way to bring new private capital into the affordable housing production market.   This activity takes place without HUD's involvement and it has been successful as a financing program.   Yet, the social targeting by the state that MHC proposes raises two questions: (1) is Treasury capable or willing to take on the oversight, capacity building, and administrative responsibilities of the targeting features of the program, and (2) is a new interagency relationship between HUD and Treasury needed (Principle 7).

Targeting the extremely low-income households for locations in low-poverty neighborhoods would be the easiest feature to monitor. It could be specified directly in the federal law that authorizes the expansion of the program, and HUD's role could be minimized—limited, perhaps to some post auditing that focuses on whether the states followed the law (Principle 7).

As part of a mixed-income housing strategy, this tax-exempt bond financing tool might be more effective if it were administered by state and local housing agencies in

combination with other affordable housing tools (Principle 1). In such a case, HUD or some other agency probably should have a role in the coordination of the program with other HUD programs.

This MHC proposal for targeting would require a balance between full devolution of responsibilities to the states, which would allow great diversity of responses, and the limits on devolution that are part of the targeting requirements. Such federal targeting would imply that some degree of federal oversight may be required (Principle 2).

Asking the states to target housing funds to socially desirable locations presents another need for new competencies (Principle 4). Currently, fewer than a dozen states have growth management processes which identify where growth should or should not occur. Reportedly, some are ineffective.[22] Some forms of targeting might be fairly easy. They include Brownfields, where an official EPA list of eligible sites is reliable. But many other sites where housing would be encouraged or discouraged may be difficult to identify at the state and local levels, where there is insufficient planned growth policy.

However, the combined statewide/metropolitan planning system under the U.S. Department of Transportation's surface transportation program may be a model to follow.[23] Federal legislation establishes "factors to be considered" when planning new highway and transit facilities and services. Under this legislation, statewide and metropolitan planning processes with broadly specified participants and procedures must be followed, and relationships between the state and metropolitan planning processes are established. Any project eligible for federal transportation funding must be included in officially adopted state and/or metropolitan plans. Also, it must be on lists of scheduled projects that are prioritized in keeping with long-range plans and within the limits of the

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[22] David L. Callies, "The Quiet Revolution Revisited: A Quarter Century of Progress," *Modernizing State Planning Statutes* (Chicago, IL: American Planning Association, 1996), pp. 19-26. See also Anthony Downs, "What Does 'Smart Growth' Really Mean?" *Planning*, April 2001, pp. 20-25.

[23] National Academy of Public Administration, *Rural Transportation Consultation Processes*, May 2000. See also: U.S. Advisory Commission on Intergovernmental Relations, *MPO Capacity*, May 1995; U.S. Advisory Commission on Intergovernmental Relations, *Planning Progress*, February 1997; and Bruce D. McDowell, *Improving Regional Transportation Decisions* (Washington, DC: The Brookings Institution, September 1999).

total funding that can be reasonably expected within the time frames of the plans and project lists (Principle 1. Customer-oriented outcomes). DOT's role is limited mostly to procedural matters, while policy decisions stem mostly from the give and take in the state-local political process.

The Environmental Justice Executive Order, which only recently began to be implemented, is the newest federal influence on the transportation planning process. It requires evaluation of federally assisted and/or regulated projects for their potential burdens and benefits across various segments of the population. Fairness is the goal, and equitable involvement by a wide variety of groups in the decision-making process is required for reaching the goal (Principle 1. Customer-oriented outcomes).[24] Where there is unfairness, Civil Rights Act lawsuits are the ultimate enforcement mechanism.

The transportation planning process is complex. Some portions of it are controversial. Many supporters of the surface transportation program innovations in the 1990's, who expected major changes in program operations under the new legislation, have been disappointed with the slow pace of change. Simply authorizing funds for certain types of locations, even when they involve financing terms that are more favorable than those at other locations, may be all that can be done. If the transportation example is relevant, any attempt to achieve federally targeted results quickly is likely to require significant federal involvement and significant controversy (Principle 7. Accountability).

State Coordination of Programs Across Federal Departments and Agencies. Over the years, there have been many attempts to integrate the administration of multiple federal programs that have similar or related goals. A prime example was the need to integrate social services to individuals and families. Beginning in the 1970s, the attempt ran into significant barriers. The social services block grant solved part of the problem by consolidating some of the most closely related programs within a single federal department. Approximately a dozen federal block grants have been enacted since 1965.

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[24] For Academy views on environmental justice, see National Academy of Public Administration, *Environmental Justice in EPA Permitting: Reducing Pollution in High-Risk Communities is Integral to the Agency's Mission*, December 2001.

Yet, they all end up consolidating related programs within a single department, leaving a good answer to the interagency coordination problem still undiscovered. Here is a summary of some of the attempted approaches.

- The Joint Funding Simplification Act of 1974 was supposed to make it possible to administer almost any combination of federal grant programs as a single project or integrated set of projects. However, it was seldom used because its terms and conditions were so difficult. Ten years after its passage, Congress finally let it expire.

- The Negotiated Investment Strategy (NIS) initiative in the 1970s was similar. Under NIS, high-level officials from HUD and DOT sat down with officials in a few select metropolitan areas. Their goal was to establish integrated annual funding of capital improvements in the area using the combined programs of these departments to reinforce each other. Ultimately, this high-level process required too much time and effort from top officials, and the initiative was abandoned.

- More recently, Congress authorized expanded flexibility to transfer funds between highway and transit programs. Its usage is increasing, but this state or locally initiated option has been slower to be used than its proponents expected. This has been true, even though both types of funds are allocated within the same planning process and are administered by the same federal department.

- In another case, the welfare reform waivers granted to the states in the early 1990s provided a way to experiment with many of the flexible welfare reform proposals that were ultimately enacted. However, this special type of flexibility was a long time coming in many states and each had its own unique statutorily and administratively determined limitations. As enacted, welfare reform establishes some formal links between the basic program in HHS and the related health, jobs, housing, and transportation programs that are administered through other federal agencies. Yet, the success of these links, depends on cooperation among the several responsible agencies, as well as

consistent discretionary actions by the receiving states and other federal grant recipients. Nationwide activation of these cross-program links has been inconsistent.

- Another recent example of trying to implement cross-program coordination is the Empowerment Zone/Enterprise Community (EZ/EC) Program. It required an interagency board and a complex process to make use of programs from multiple agencies.

As these examples suggest, interagency coordination is one of the most difficult undertakings in the federal government. Many federal funds slated for states go to individual state agencies for limited purposes. Moreover, governors are likely to face forces within their own governments that are intent on protecting these limitations, a situation similar to that found in the federal agencies. Thus, if federal waiver authority were to be made available to governors, thought would need to be given to how it could be made feasible (Principle 4. Competence; Principle 7. Accountability). Also, the states may need help with making the process work effectively and smoothly.

The Public Housing Project Spin-Off Option. With regard to the public housing spin off proposal, HUD will face questions about both its oversight of the non-spun-off inventory, and its assistance to PHAs that lack the knowledge to activate the plan. A decision would need to be made about which part of HUD would do these things and how. For example, should the Office of Public and Indian Housing maintain oversight for the full range of PHA activities, including spun-off properties? Or should responsibilities for the privately capitalized projects be shifted to a different organization—perhaps to the new market-based corporation?

Considerable work may be required to qualify individual public housing projects for private-market mortgage financing. For the market to accept these projects at reasonable interest rates and ensure proper property maintenance through sinking funds established for that purpose, it may be necessary to require the PHAs to prepare a credible business

plan for upgrading and maintaining each project to make them an attractive money market investment opportunity.

Without judging the potential success of this effort, it seems reasonable to expect that a substantial number of projects will not be spun-off quickly. The implications for HUD's role are that (1) old-style management of PHAs by HUD would have to continue for some time to cover the operations that have yet to be spun off, and (2) HUD would have to provide assistance of some sort to help PHAs spin-off those projects that can be made eligible. Thus, for a time at least, HUD may need to operate dual management systems for overseeing its public housing portfolio. During the transitional period, this may require additional HUD staff and other resource allocations to competently support these dual responsibilities (Principle 4).

Field Structure

There are substantial questions about HUD's new field structure. In the wake of personnel reductions that HUD has experienced recently, and the use of less technically qualified community builders in some cases, recent Academy research found declining satisfaction with the technical and administrative services of HUD field offices.[25] To be effective, HUD's field structure needs to be supported with qualified personnel. Hopefully, the new Academy-designed resource estimation system now coming on-line will help to identify these resource needs. It might be appropriate to consider a smaller field structure (such as the earlier 51 offices or fewer)—that would have several larger, more expert regional offices as a complement to the MHC emphasis on program coordination and state responsibilities. Such a structure might also to be more practical for HUD to administer. This question could become more important if the new corporation proposed by MHC establishes a separate field structure and removes FHA activities from the department's field offices.

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[25] *Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs*, pp. 46-47.

NAPA's 1994 report questioned HUD's 1994 elimination of the regional offices.[26] To a significant degree, the structure HUD adopted then is the basis for the current field structure. Internal procedures have also changed in recent years. Thus, headquarters program offices now have a more direct command relationship over field office activities in their areas. Decisions that would influence the field structure of a new HUD include whether: (1) the non-corporation part of the field should stay decentralized or be reconfigured into regional offices, (2) a less direct command relationship between headquarters and field program activities would be reconsidered, and (3) field office functions would be expected to change.

Consultation Mechanisms

Two NAPA reports deal with the importance that consultation has for HUD's programs. First, *GPRA in HUD: Changes for the Better*, stressed the importance of consultation with HUD's customers in developing the department's strategic plan. Second, *Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs* stressed the importance of having the same kind of consultation with respect to major program changes. The latter report recommended six principles of effective consultation[27] that should guide any HUD efforts along these lines.

As the MHC recommendations are adopted, one should not underestimate the benefits of involving HUD's customers in resolving the questions that this paper raises. Consultation with affected customers will help assure that necessary changes are acceptable to the most directly affected groups. In addition, consultation will likely lead to the most effective administrative, organizational, and procedural changes for implementing legislation that stems from MHC recommendations. As the vision of the new HUD materializes, consideration should also be given to establishing a more formal mechanism in the reorganized department to assure consultation.

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[26] *Renewing HUD*, pp. 86-87
[27] *Evaluating Methods*, pp 17-27.

Reduced Program Risks

The MHC proposals should assure that they would not expose federal housing programs to greater risk of waste, fraud, and abuse (Principle 8). In this regard, perhaps the most obvious question is whether the housing to be financed or insured by the FHA/GNMA corporation, tax exempt state bonds, and mortgage-based public housing properties would continue to be inventoried and assessed by HUD's REAC system. The MHC proposals appear to suggest that the quality of these types of affordable housing would be assured by private money market mechanisms. That could imply that HUD's system would no longer assess them. If so, it would be wise to spell out the nature of the alternative private-sector assessment process that will assure Congress and the public that the new process would not increase the risks of bad housing conditions or management and financial deficiencies. Similarly, Congress or the department may need to spell out safeguards for protecting the integrity of the state targeting processes.

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MHC proposals would be strengthened by a vision of HUD that answers questions such as those raised above. The principles for assessing HUD reform proposals, which appear in this paper, may be helpful in forming such a vision.