E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

12-Oct-1993 04:55pm

TO: (See Below)

FROM: Paul J. Weinstein, Jr
Domestic Policy Council

SUBJECT: Performance Agreements

MEMORANDUM FOR	BILL GALSTON	JOSE CERDA
	BRUCE REED	STAN HERR
	KATHI WAY	LYNN MARGHERIO
		MIKE SCHMIDT
		DONSIA STRONG
		BRIAN BURKE
		PATRICK LESTER

FROM: Paul Weinstein

SUBJECT: National Performance Review (NPR) Performance Agreements

I talked with Carolyn Lukensmeyer of NPR today about the timetable for the NPR performance agreements. Carolyn is coordinating the process for NPR. The timetable still calls for the signing of these agreements by November. Presently, we have three agreements pending, HUD, Interior, and GSA. Brian, Donsia, and Mike are taking the lead on responding to the Interior agreement, I will work on HUD with Donsia and Stan, and I guess I will handle GSA as well, unless there are any other takers. The agreements we can expect in the next week or so should be from Labor, Agriculture, and Justice.

I would like to suggest the following process if this makes sense to everyone. I will get copies of the draft agreements from the agencies and will distribute. Since many of us handle the same agencies, we will need to coordinate responses into one memo. The memo should go to the Chief of Staff from the agency drafting, and to NPR. We should have one week to draft comments. Therefore, the HUD, Interior, and GSA agreements should be commented on and sent off by COB Monday. Carol would also like it if we could coordinate any comments that require a joint response with the NEC. I am happy to help coo rdinate that
process with Peter Yu of the NEC. It would be great if everyone could give me a copy of the memo so I can provide Carol with a set and keep another file of all of them over here for reference .

Performance Agreement

Between

The President of the United States

William Jefferson Clinton

And

The Secretary of Housing and Urban Development

Henry G. Cisneros

September ____, 1993

Washington, D.C.

(conj...) then so is the 'Secretary's' text. Just happened to have red ink at hand -- very appropriate given the quality of this draft.

Prevention of homelessness is equally important and separate point given needs

preserve stock of federally assisted housing, and the fact that millions of Americans are 1 missed paycheck, flood, or health care emergency from eviction.

Stan

Section Three: Declarations of Objectives by the Secretary

From an English (language) perspective, somebody should redraft this preamble

To accomplish this Mission, as guided by these Principles, the following Objectives are declared by me, Henry G. Cisneros, as Secretary, on behalf of the Department:

Objective: Help more homeless persons and families ~~progress to~~ obtain* permanent housing through local HUD-assisted comprehensive homeless systems.

** Objective: Significantly reduce the number of severely distressed public housing units through redevelopment and/or replacement of units with a combination of low-density, small-scale, carefully designed developments and housing choices throughout communities. This will be complemented by an effort to increase the availability of housing vouchers and certificates, thereby enabling residents to act upon a greater range of choices.

Objective: Reform the Federal Housing Administration so that it once again becomes a positive force for developing affordable housing; reestablish FHA's role as a principal means by which HUD significantly increases homeownership opportunities for low and moderate-income American families; and reassert FHA's role as the principal advocate in government for aggregate private housing production.

Objective: Substantially reduce racial barriers to residential mobility and enhancement of the ability of minorities to choose where they live, through a combination of vigorous enforcement of Federal fair housing laws and creative metropolitan-wide housing and community development strategies. The goal is to reduce the spatial separation by race and income that characterize American urban areas.

Objective: Empower communities by working in partnership with State and local governments, community-based organizations, and the private sector, to create jobs and appreciably improve the quality of urban life. w/ private nonprofits

Objective: Eliminate management deficiencies by developing a performance oriented planning process that anchors resources management and a systems integration strategy. The goal is to eradicate significant numbers of duplicative, inefficient and wasteful management practices.

* The end rather than process is important. progress sounds like they will have to go thru burdensome stages before they obtain permanent housing

** As a separate objective, or perhaps as part of first one prevent persons from becoming homeless and reduce their length of stays in emergency shelters

Objective: Help more homeless persons and families ~~progress to~~ to obtain permanent housing through local HUD-assisted comprehensive homeless systems.

Priority:

- Structure Federal homeless assistance to ensure appropriate housing and services ~~and housing needs are delivered to~~ for homeless individuals and families through a new "continuum-of-care" approach. This approach recognizes that homelessness often represents the most extreme breakdown of our housing and social services system. Many homeless persons face multiple barriers to independent living, including mental illness; lack of housing, lack of income, jobs and job training, etc. The continuum-of-care concept brings ~~the~~ individual homeless into a system, assesses needs and provides ~~these~~ them ~~persons~~ with a full range of services, ~~if any,~~ as needed, to regain independent living and helps ensure transition into permanent housing at whatever point the person is ready.

  As chairman of the Interagency Council on the Homeless (ICH), the Secretary will work with Health and Human Services, the Veterans' Administration, the Department of Labor, the Department of Education and other agencies serving the homeless to move Federal assistance toward the continuum-of-care approach. The system would be developed and implemented through the cooperation of State and local government agencies, nonprofit provider organizations, foundations, private businesses, ~~and~~ homeless persons, and their advocates. ****

Objective: Significantly reduce the number of severely distressed public housing units through redevelopment and/or replacement of units with a combination of low-density, small-scale, carefully designed developments and housing choices throughout communities. This will be complemented by an effort to increase the availability of housing vouchers and certificates, thereby enabling residents to act upon a greater range of choices.

Priorities:

- Increase the quality of public housing units available to meet the housing needs of lower income families and achieve earlier construction completions.

* One doesn't deliver needs"

delivery

Let's not stigmatize entire population by putting mental illness first.

**** Throwing needs that [illegible]

On reading this paragraph I think a broad based objective is needed to describe preventive measures to keep precariously housed millions from joining ranks of the homeless.

**** many homeless folks are involved in advocacy organizations, or such organizations frequently [illegible]

**** NE has important responsibilities to kids under McKinney Act.

URGENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

LRM NO: 77

FILE NO: 82

1/18/95

LEGISLATIVE REFERRAL MEMORANDUM

Total Page(s): _____

TO: Legislative Liaison Officer - See Distribution below:

FROM: Janet FORSGREN (for) Janet R. Forsgren
Assistant Director for Legislative Reference

OMB CONTACT: Anna BRIATICO 395-7887
Legislative Assistant's line (for simple responses): 395-7362

SUBJECT: HOUSING AND URBAN DEVELOPMENT Proposed Testimony on Agency Management

DEADLINE: 3 p.m. Wednesday, January 18,1995

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Secretary Cisneros proposed testimony for the VA , HUD and Independent Agencies Subcommittee of the Senate Appropriations Committee Hearing TOMORROW. If we do not hear from you by 3 p.m., we will assume that you have no comments.

Also attached is a copy of the report entitled "A Place to Live is the Place to Start" which is referenced in the testimony.

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RESPONSE TO
LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 77
FILE NO: 82

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Anna BRIATICO 395-7887
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ______________________________ (Date)

______________________________ (Name)

______________________________ (Agency)

______________________________ (Telephone)

SUBJECT: HOUSING AND URBAN DEVELOPMENT Proposed Testimony on Agency Management

The following is the response of our agency to your request for views on the above-captioned subject:

Agency Management

______ Concur

______ No Objection

______ No Comment

______ See proposed edits on pages __________

______ Other: ______________________________

______ FAX RETURN of ____ pages, attached to this response sheet

January 17, 1995

Draft testimony for Secretary Henry G. Cisneros

Mr. Chairman and members of the Committee, I would like to thank you for this opportunity to appear before you today. I congratulate you, Senator Bond, on assuming the Chair of this important Subcommittee; and I thank you, Senator Mikulski and other Senators returning to the Subcommittee for your assistance and your fairness. I look forward to working with you and the new Members of the Subcommittee in this Congress.

Mr. Chairman, I welcome this series of hearings on the Department of Housing and Urban Development. They come at a critical time and opportune moment in HUD's history -- a moment when a confluence of events is driving what promises to be the most far-reaching reform of federal housing and urban policy in 60 years.

A number of factors have converged to compel a top-to-bottom review and restructuring of HUD.

First, I believe there is growing consensus -- among conservative and liberals alike -- that federal programs must devolve maximum flexibility to decisionmakers at the state, local and neighborhood levels. From this perspective, HUD programs still remain too prescriptive, too federally driven, too inflexible.

Second, I believe there is a growing consensus that federal programs should give low and moderate-income families, to the greatest extent practicable, maximum choice to make decisions about their lives. Many HUD programs are also found wanting on this score; by providing resources to projects, they simply do not give residents the power to decide where to live.

Third, innovations in capital markets have revolutionized the financing of affordable housing and mandate a change in the way the Federal Housing Administration operates and relates to the private sector.

Finally, Mr. Chairman, the budget imperative -- the need to control federal spending to reduce the deficit and free federal resources for middle-class tax relief -- dictates that we must find ways of serving HUD's mission at lower cost.

These converging factors have forced the issue about how HUD should operate, and frankly, whether HUD should exist at all. Clearly, the second question demands an answer first.

Mr. Chairman and members of the Committee, I am absolutely convinced -- not only as HUD secretary, but as a former mayor and longtime student of urban issues -- that people and communities throughout the country still need HUD today. HUD undertakes vital tasks which no other federal department assumes -- strengthening the economies of cities and smaller communities; forging a cohesive, national housing policy; and meeting the housing needs of the most vulnerable among us, including the homeless, people with disabilities and the frail elderly.

The dismantling of HUD would risk federal abandonment of these important national concerns and would, in my strong opinion, be a tragic mistake.

We still need HUD, Mr. Chairman -- today, more than ever. But we need a radically different HUD. And that is why we have proposed dramatic, sweeping changes in the way the department is structured and the way it operates. I would like to take a few moments of the Committee's time to outline these changes.

Our proposed restructuring of HUD -- our reinvention blueprint -- has three basic components: consolidation of all of HUD's existing programs into three performance-based funds; a complete transformation of public housing; and the transformation of FHA into an entrepreneurial, government-owned corporation.

With regard to program consolidation, our proposals have drawn heavily on this Appropriation Subcommittee's own FY 1994 report, which for the first time identified the problem of proliferating programs at HUD. We've also drawn on the National Academy of Public Administration's (NAPA) report which corroborated the need to reduce and better focus our programs. And finally, we've relied on an internal HUD Inspector General's report, which identified a series of options for program consolidation, and which I will make available to the committee today.

We propose, by fiscal year 1998, to consolidate 60 major HUD programs into the following 3 performance based funds.

Housing Certificates for Families and Individuals, to provide direct assistance to low-income households for affordable rental housing and for homeownership. All current public housing, assisted housing, and Section 8 rental assistance programs would be combined into this fund, which would be administered by local and state governments.

The Affordable Housing Fund, to support development and rehabilitation of affordable housing. All current HUD grant programs for production and preservation of housing for low- and moderate-income households would be rolled into this fund, which would also be administered by localities and states.

The Community Opportunity Fund, to stimulate community revitalization. All current HUD grant programs for community economic development -- including Community Development Block

Grants and Economic Development Initiative grants -- would be consolidated into this fund. Again, localities and states would have broad flexibility to use resources from this fund to stimulate business growth and expand job opportunities in distressed communities.

All these funds will be performance-based. In other words, success or failure will have real consequences for fund recipients. Localities and states who do well -- who help people find housing, who produce more affordable housing and more business growth and job opportunity -- will be rewarded with bonuses and increased flexibility. Poor performers would not receive extra funds. In extreme cases, their funding could be reduced and reallocated to other recipients. As much as we can, we want to build real-world market incentives into these funds.

Our proposal to date has focused on the consolidation of those 60 HUD programs we consider to be critical to our mission. with separate appropriations. Your Subcommittee, NAPA and our IG have identified another xx minor HUD activities -- set-asides, technical assistance funds, eligible activities, other authorized but unfunded programs and so forth. I want to assure you today that under our proposed consolidation, all these activities -- all of them -- will either be consolidated into the 3 new funds or terminated.

Mr. Chairman, market incentives also inform our proposal to transform public housing. When program consolidation is completed in 1998, there will no longer be any direct federal subsidies to public housing authorities. Instead of subsidizing housing units and housing bureaucracies, we will, to the maximum extent practicable, provide direct assistance to people, through the locally administered Housing Certificates fund. Residents will have complete freedom to choose where they live. If they don't like the housing offered by housing authorities, they will be able to move. Housing authorities will have to compete for their business. Well-managed authorities will survive; poorly run authorities will have to shape up or go under.

That is the endgame of public housing transformation, Mr. Chairman. There will be a transition period. In FY 1996 and FY 1997, we are proposing to consolidate all existing public housing programs into two accounts for capital expenditures and operating subsidies. There are more than 3,000 public housing authorities that are performing well now, and they would be deregulated and given much more flexibility to use these funds as needed. We would form partnerships with localities and states to improve the operations of more than 100 housing authorities, to give them a chance to compete in the new, market-oriented environment they will face in 1998. We would also accelerate the demolition of the worst public housing developments and the rehabilitation of housing that is viable.

Finally, Mr. Chairman, we are proposing to completely recast FHA. We want to transform it from a slow-moving government bureaucracy into a streamlined, market-driven, government-owned corporation. The new FHA would use federal credit enhancement -- in partnership with localities and states, nonprofit agencies and private industry -- to expand homeownership opportunities and to support development of affordable rental housing. As part of this transformation, we would consolidate xx separate insurance authorities into just two: one for single-family, and one for multifamily insurance.

Since we first announced our plan to consolidate HUD's many programs into three funds last month, there have been many questions raised about what this would mean for the priorities we set for the Department two years ago: expanding homeownership and affordable rental housing opportunity; reducing homelessness; transforming public housing; opening housing markets; and making our cities stronger and revitalizing distressed communities. Mr. Chairman, as the changes we are proposing for public housing illustrate, these priorities have gained new primacy in this reinvention plan.

We have prepared a report, *A Place to Live is the Place to Start*, which spells out in detail how we have pursued these priorities during the past two years, and how they will be pursued by HUD -- in partnership with localities and states -- under consolidation. I will leave a draft copy of this report with the committee today.

Mr. Chairman, two additional questions have been raised about HUD's reinvention plan since its release -- what is its impact on the budget and how does it relate to HUD's management deficiencies.

As I said before, one of the factors driving HUD's reinvention is the imperative to reduce the deficit and provide tax relief for middle-class working families. We have taken this imperative seriously throughout the FY 1996 budget process and have attempted to find innovative ways of reducing the cost of HUD's programs and responsibilities.

The reinvention blueprint presents a profound change in the logic of federal housing policy and will generate significant budget savings over the next five years.

The consolidation of HUD programs into 3 performance based funds and the move towards an FHA corporation will obviate the need for the current numbers of HUD staff and field offices. What HUD staff do, how they do it and where they do it will be inexorably altered by this ambitious restructuring.

Thus, as the President announced last month, more than $800 million in administrative expenses alone will be saved over the next five years.

The reinvention blueprint also entails a marked shift away from HUD's traditional philosophy of preserving an ever expanding inventory of affordable housing and towards policies that empower low income families (particularly working families) and discipline owners and managers of affordable housing through the power of the market. HUD's budget in the future will be driven less by the needs of a given project and more by what makes the most sense -- for families, for neighborhoods, for taxpayers.

Key HUD policies -- on preservation of the older insured stock, one-for-one replacement of public housing, rent levels in the older assisted inventory, admission rules in public and assisted housing -- will, therefore, be altered to reflect this fundamental change in philosophy. When combined with program rescissions and reductions, HUD savings will climb to xx billion over five years.

This is obviously not the time for a full budget discussion. Our FY 1996 budget will be released on February 6th; I will be more than pleased to return at that time and give a full explication of our decisions.

Mr. Chairman, I know I will be followed today by HUD's Inspector General and witnesses from GAO and NAPA, and I understand that much of the discussion will focus on management issues. Mr. Chairman, we take those issues and the concerns raised by the IG, GAO and NAPA very seriously, and our consolidation and reinvention proposals further our efforts to remedy the Department's serious management deficiencies.

I believe we are making steady progress towards creating a new management culture at HUD -- particularly given the magnitude of the problems we inherited, the breadth of the reforms we are undertaking and the tight fiscal environment in which we operate. Several accomplishments are particularly noteworthy.

HUD's multifamily disposition crisis -- front page news a year and a half ago -- is now under control. As you will recall, multifamily properties owned by the Department had ballooned to 170 by the end of 1992. The system was near collapse -- with properties coming in to the inventory faster than HUD could sell them. With the aid of statutory relief and greater resources, that inventory has now been reduced by one third, and properties are being removed from the inventory every other day. That is good for HUD and, more importantly, good for the residents of these properties, the neighborhoods in which they are located and the American taxpayer.

The elimination of HUD's regional review function is now near completion. Reorganization has eliminated confused lines of authority, enhanced communication and reduced layers of review and approval to improve customer service.

The downsizing of HUD's staff is also being managed in a prudent, responsible way. HUD's FTE levels have declined from 13,500 to 11,900 as a result of caps imposed by the Administration and additional budget cuts made by the Congress.

Clearly, we have a long way to go, particularly with respect to the systemic weaknesses in the areas of management control environment, resource management, and data systems. Correction of these deficiencies is essential if HUD is to serve the needs of America's families and communities effectively and efficiently.

HUD also, despite our best efforts, continues to suffer from a culture of micromanagement. That is why I recently directed our General Counsel to undertake an expedited review of HUD's regulations -- focusing on finding alternatives to regulations, restraining HUD from rulemaking where unnecessary and, where rules are appropriate, emphasizing guidance that decontrol local actors.

But Mr. Chairman, as serious as HUD's management problems remain, it is important to view them in the context of the recent past, and to understand how much HUD has already changed for the better. Ten years ago, HUD was literally for sale. Well connected developers and lobbyists were able to subvert competitive processes for their personal gain. That era of disgrace has hopefully ended and will be virtually impossible in a reinvented HUD where funding decisions are made at the local and state level.

Mr. Chairman and members of the committee, we have made substantial progress in reforming HUD's management under the current program structure. I believe our actions to date have demonstrated our ability to take this agency through a difficult yet critical transition. It is my hope that we have earned your trust to complete the course.

Once again, I thank you very much for the chance to speak here today, and I would be happy to answer any questions you may have.

DRAFT

A Place to Live is a Place to Start: A Statement of Principles for Changing HUD to Meet America's Housing Priorities

This is a statement of principles which will be followed by specific, implementing legislative proposals in February. The purpose of this report is to explain HUD's priorities and how they will be affected by the Department's transformation.

DRAFT PRESIDENTIAL MESSAGE

The American people want and deserve a federal government that works for them, helping them improve their own lives. But with the proliferation of programs, complex regulations and cumbersome bureaucratic procedures, the government has too often stymied local innovation and constrained local communities' ability to solve their own problems.

Today, communities across our nation still need federal help to ensure that all Americans can find decent, affordable housing in safe, clean neighborhoods. Communities throughout America still need federal resources -- which they can match with their own public and private resources -- to spur business development and job growth, and to help everyone who is willing to work find jobs in our rapidly changing economy. The Department of Housing and Urban Development is uniquely suited to provide this assistance. HUD is the only federal agency that is entirely focused on the housing and economic development needs of our large and small urban communities, and particularly on the needs of the very poor, and low-income working families.

But for HUD to serve our communities the way the American people expect it to, it must change. Secretary Henry Cisneros has accepted this challenge and is transforming HUD into a real working partner with people and communities. He is changing the way HUD works with the private sector and all levels of government, cutting red tape, reducing costs and making the Department truly responsive to local communities' real needs.

Together, Secretary Cisneros and I have made a commitment to revolutionary change at HUD, and this document describes our vision of a new, entrepreneurial Department. But it is more than a vision statement; it is a plan for action, setting out the definitive steps that will transform HUD into a strong and vital partner of America's communities.

Draft Secretary's message

President Clinton has proposed dramatic changes which will radically alter the way the Department of Housing and Urban Development serves America's communities. I believe strongly that these changes will result in an agency that is fully responsive to local needs and supportive of local efforts to help people improve their own lives.

This report, "A Place to Live is the Place to Start: A Statement of Principles for Changing HUD to meet America's Housing Priorities," is intended to answer three questions:

- How is the Department of Housing and Urban Development changing to meet the needs of America's communities?

- What will these changes mean for the priorities which the Administration has already set for HUD?

- How will HUD conduct its ongoing business as it transforms itself into a leaner organization whose job is to lead rather than prescribe?

HUD has a vital mission to perform: making America's communities better places to live by supporting local efforts to expand affordable housing, homeownership and job opportunities. HUD was established 30 years ago because Congress recognized that many communities needed federal help. Congress decided then to consolidate federal housing and urban development efforts in one department to sharpen their focus, maximize their impact and strengthen the creative, cooperative relationships between the federal and state and local governments that are vital to real change in local communities.

In the intervening decades, millions of Americans have benefited from HUD programs.

- The Federal Housing Administration, which HUD runs, has insured new mortgages and refinanced loans for more than 17 million homeowners.

- Approximately 7.3 million people have lived in public housing supported by HUD subsidies.

- Nearly 12.5 million households -- including millions of senior citizens and people with disabilities -- have lived in privately owned, federally assisted multifamily rental housing developments.

- About 6.5 million households have used Section 8 certificates and vouchers to obtain affordable rental housing on the open market. HUD provided financial assistance to rehabilitate 1.6 million owner-occupied homes and 750,000 apartments for low- and moderate-income Americans.

- More than 70,000 units of housing for Native Americans have been built and another 10,000 units are in development.

Today, there are those who call for the dismantling of HUD. But that would be a tragic mistake. There are things that no other federal department does which would be lost if HUD were dismantled and its various functions spun off to other agencies. Furthermore, the effectiveness of federal efforts to strengthen our communities is enhanced when they are combined. Today, HUD strengthens communities by:

- Helping Americans build communities of opportunity by providing federal resources in a way that encourages the further leveraging of private resources and engagement of business and nonprofit organizations in local initiatives for change;

- Making affordable housing serve as a starting point for families striving toward stability and self-sufficiency, encouraging and rewarding work and education and promoting secure environments for families;

- Helping meet the housing needs of our nation's poorest and most vulnerable people, such as the homeless, frail elderly and the disabled;

- Advocating for the housing sector, an industry that is vital to the nation's economy and financial health, and helping the private housing market meet the needs of more Americans for affordable homeownership and rental housing;

- Asserting and strengthening the role of cities and greater metropolitan areas in the national economy and in the furtherance of national ideals, such as racial integration and full economic opportunity for all Americans; and

- Protecting Americans' rights to fair housing and equal opportunity, as guaranteed by law and the Constitution.

When all these goals are pursued by a single agency like HUD, with its unique perspective and mission, the whole literally becomes greater than the sum of its parts.

As critical as HUD's mission is, and as great as the need for HUD's unique perspective remains, the Department does not deserve to stay in business unless it changes the way it does business. When I came to HUD two years ago, I found an organization almost incapable of doing its job because it was more interested in bureaucratic process than results, slavishly loyal to non-performing programs, and distrustful of creative initiatives by local community leaders. Clearly, HUD could not continue doing business "as usual."

With President Clinton's strong support, and with the support of thousands of dedicated HUD employees and in collaboration with union partners, the Administration has been working hard since 1993 to turn HUD around. We have made significant progress: We have streamlined programs, done a better job of getting resources to communities and reduced our overhead, cutting HUD's workforce 11 percent -- from 13,500 to 12,000 employees in two years. Step by step, we have been transforming HUD into a customer-oriented, performance-driven organization that is more responsive to local needs.

Our ongoing efforts to change HUD have been driven by key priorities which we identified early on as central to the Department's mission: reducing homelessness; changing public housing; expanding homeownership; expanding the stock of affordable rental housing; preserving the stock of HUD-assisted rental housing; opening housing markets; supporting community-based, nonprofit development efforts; and revitalizing the cores of our nation's large cities. These priorities will gain new primacy under President Clinton's proposals, which represent the bold endgame of a reinvention process that began in January, 1993.

Under the President's proposals, 60 narrowly defined HUD operational programs will be consolidated into three performance-based funds by 1998. One of the funds would consolidate HUD programs for community economic development into a single Community Opportunity Fund. The other two funds would be devoted to carrying out HUD's historical low-income and affordable housing missions -- one by funding portable rental assistance to enable recipients to obtain decent housing in the private market, and the other by funding local and state initiatives to expand the supply of affordable housing.

The President has also proposed to end federal subsidies to public housing authorities. Instead, public housing residents would receive portable rental certificates, permitting them to remain in their current units or to seek better housing elsewhere. This would force housing authorities to compete with private landlords for subsidized and unsubsidized tenants. Tenant-based rental assistance would continue to be governed by the current Fair Market Rent system that pegs assistance to the local cost of decent housing.

Finally, President Clinton has proposed to turn the Federal Housing Administration, which has insured home loans for millions of working families, into a government-owned corporation which will run more like a business than a bureaucracy.

These changes will give local communities maximum flexibility to combine federal resources with their own public and private resources to support local initiatives that make a real difference in people's lives. They will put tangible results firmly ahead of bureaucratic process both at HUD and in communities from coast to coast and border to border. They will enable HUD to truly fulfill the mission set for the Department 30 years ago when it was charged to ensure that every family in America can live in dignity in a decent home, in a neighborhood full of pride, a community replete with opportunity and a city burgeoning with promise and hope.

There is no doubt about the need to strengthen America's communities today. If there were no U.S. Department of Housing and Urban Development, Congress would be under enormous pressure to establish one. If HUD were to be disbanded, its unique focus on the problems of urban communities, large and small, would be lost and its mission nearly impossible to achieve.

Thousands of communities, and millions of people across America still need HUD's help, and HUD must do better by them. As President Clinton has told us repeatedly: "We can do better." With enactment of the President's proposals, we will.

Accelerating HUD's Reinvention

ACCELERATING HUD'S REINVENTION

The overhaul of the Department of Housing and Urban Development begun in January 1993 must be accelerated, and reinvention must be expanded, in order for HUD to achieve its mission. Our plan for completing the reinvention of HUD has three components:

OVERVIEW

I. Consolidate programs and move to performance-based funding

Reinvention would consolidate HUD's 60 programs into three flexible, performance-based funds: Housing Certificates for Families and Individuals; the Affordable Housing Fund; and the Community Opportunity Fund. These funds would give mayors and governors the flexibility to develop local demand and supply-side housing and community investment strategies that, by their nature, vary from jurisdiction to jurisdiction and change from year to year.

Reinvention would be an exercise of responsible devolution. Localities and states would be required to design and implement plans that are consistent with national objectives (e.g. income targeting, fair housing, community-based participation, attention to special populations). Localities and states would also be held accountable for their actions; performance measures would be used to help both communities and the Federal government evaluate recipients on their real progress in meeting community investment and housing needs.

II. Transform public housing

Reinvention would end the current public housing system, which simply has not worked for too many people or communities, especially in some of our larger metropolitan areas. HUD would convert operating subsidies for public housing agencies to rental assistance for residents, who would be free to choose to stay where they are or seek housing in the private rental market. Public housing agencies would then be compelled to compete in the marketplace for low-income residents. Well-run agencies would survive as private, nonprofit organizations. Poorly run agencies would go out of business.

III. Create an entrepreneurial, government-owned FHA corporation

Reinvention would transform the Federal Housing Administration into a government-owned corporation, thereby enhancing the ability of the public and private sectors to expand homeownership opportunities and affordable rental housing for millions of Americans. The new FHA would become a model of a government that is streamlined, downsized, entrepreneurial and accountable -- using public private partnerships and market mechanisms to achieve its public purposes.

These proposed changes share a set of common-sense principles and philosophy.

<u>Low- and moderate-income families should have greater power to make decisions about their lives, and government should support their quest for self-sufficiency.</u>

Public and assisted-housing rules have locked families into substandard housing, impeded their ability to lift themselves to better lives and allowed badly managed agencies and absentee owners to operate with impunity. Federal policy must serve people, not institutions.

<u>Decision makers at the neighborhood, local and state levels should have maximum flexibility.</u>

Local leaders know best how to set and achieve community development and housing goals. In recent years, local capacity to solve problems has grown as state and local government, private industry, nonprofit organizations and community-based groups throughout the nation have formed creative partnerships to promote affordable housing and economic growth. Federal policies must support local effort, local partnerships and encourage full engagement of local public and private resources.

<u>The very character of HUD must change if the reinvention of policies and programs is to succeed.</u>

Traditional federal solutions have been top-down, bureaucratic, complex and overly prescriptive. The federal government must become a true partner for change in communities, facilitating rather than prescribing. HUD must act primarily as a clearinghouse for innovative solutions, sharing information with funding recipients about new models of housing finance, and providing technical support to government, community-based groups, and others.

<u>The federal government has a necessary role to play in upholding Americans' fundamental Constitutional and legal rights.</u>

Protection of Americans' rights to fair housing in places where local community practices and politics have permitted housing discrimination is a prime example of the need for continued federal leadership. Racial minorities, people with disabilities, and families with children have all been victims of discrimination at the local level. There are times when the federal government must step in as the ultimate guarantor of fairness and due process, and when local officials must rely on the clarity of federal standards and the certainty of enforcement to move a community to follow a just course.

One of the greatest challenges to America's urban future is the persistent concentration and isolation of poor people and minorities in the central cities of our greater metropolitan areas.

Meeting this challenge requires serious efforts to increase housing choice for the working poor. Barriers to mobility must be eliminated, and metropolitan and regional coalitions must be engaged in fair housing, employment and education strategies. There is no scenario in which the nation's cities can be revitalized without real dedication to resolving these issues. And transcending the fate of our cities, our national ideal of racial harmony in a civil society requires us to redouble our efforts to reverse housing patterns which divide Americans by race, income and class.

FUNDAMENTALS OF REINVENTION

I. Program Consolidation and Performance-Based Funding

Reinvention would consolidate HUD's 60 programs into three flexible, performance-based funds:

- <u>Housing Certificates for Families and Individuals</u> to provide housing assistance for rental and homeownership opportunities. All current public housing, assisted housing and Section 8 rental assistance programs would be combined into a single housing-assistance fund administered by local and state governments, which would issue housing certificates to low-income people. This assistance, based on local rental housing costs, would become the principal means for meeting the housing needs of low-income families and individuals, who would have maximum housing choice: the power to move.

- <u>Affordable Housing Fund</u> to support development and rehabilitation of affordable housing. All current HUD grant programs for housing production and rehabilitation, including HOME, housing for the elderly and persons with disabilities, housing counseling and the National Homeownership Fund, would be consolidated into a single fund to provide localities and states with flexible, formula grants for acquisition, rehabilitation and construction of affordable housing and for homeownership efforts that help stabilize distressed communities. Resource allocation under the Affordable Housing Fund would be the same as under the HOME program: 60 percent for localities and 40 percent for states.

- <u>Community Opportunity Fund</u> to stimulate community economic revitalization. Current HUD grants for community economic development including Community Development Block Grants (CDBG) and Economic Development Initiative (EDI) grants would be consolidated into a single fund to help local and state governments meet the most critical economic and revitalization needs of distressed communities, with a national set-aside for Native Americans. This consolidation would replace existing, multiple community economic development programs -- with their separate requirements, applications, formulas and monitoring -- with a single source of funds, with simple rules and criteria for use. The allocation split between localities and states would be the same as under the CDBG program: 70 percent for localities and 30 percent for states.

The new, performance-based funding will give localities and states greater flexibility to pursue their own solutions, in exchange for compliance with certain national standards. HUD has identified the following conditions which would apply to local use of the consolidated funds:

- Adherence to income targeting rules;
- Compliance with federal fair housing laws;
- Attention to vulnerable populations including the homeless, disabled, people with HIV/AIDS and the frail elderly;
- Emphasis on transitions to economic independence and homeownership in the design and implementation of programs; and
- Participation by community-based organizations.

HUD administration of the new performance-based funds would be further shaped by the following standards:

<u>Local strategies.</u> Local and state strategic plans for housing and community development would need to be devised before federal funds would be disbursed. These plans would spell out how localities and states would use federal funds to meet the housing needs of moderate-, low-, and very-low-income people and spur business development and job growth in underserved communities, while adhering to specific funding conditions.

<u>Accountability.</u> Fund recipients would be held accountable for results by being evaluated on a series of nationally and locally defined performance measures. Recent leadership by state and local officials in Oregon and other jurisdictions on performance-based measures holds great promise for a results-oriented working partnership.

<u>Performance bonuses and sanctions.</u> Success or failure would have real consequences for recipients of federal funds. Superior performers, for example, would have access under each fund to a 10 percent bonus pool and would be permitted to "flex" resources between different funds, as is currently allowed under highway and transit programs. Low performers would not be eligible for any performance bonus or flexibility and, at the extreme, could have funding reduced and reallocated to other recipients.

<u>Transition rules.</u> Transition rules would allow for the orderly transfer of administrative responsibilities as well as ensure the continued, discrete emphasis on service-enriched housing for special populations.

Transitions:

Consolidation of HUD programs into performance-based funds will occur in two phases. In FY 1996, 60 separately funded HUD programs will be consolidated into eight funds for public housing capital development and operating subsidies, individual housing assistance, assisted housing, community development, affordable housing development, homeless assistance and housing for persons with AIDS.

Consolidation will be completed in FY 1998, with the merger of eight funds into three -- Housing Certificates for Families and Individuals, the Community Opportunity Fund and the Affordable Housing Fund.

[FUND CONSOLIDATION SCHEMATIC]

II. The need for Reinvented Housing Assistance

HUD's preeminent task is to ensure that all Americans have access to decent, affordable housing. The Department must seek the most effective avenue to accomplish this task, based on a clear understanding of the real causes of housing problems in America, and without regard to vested interests in existing and potentially outmoded programs. In the words of the Heritage Foundation: "The nation's low-income housing policies must be made to serve the poor, rather than the developer and landlord special interests and entrenched public housing bureaucrats." (*Mandate for Leadership III: Policy Strategies for the 1990s*)

The Department believes and national data confirm that the overwhelming cause of severe housing problems is lagging household incomes and high housing costs, rather than broad-based housing shortages. For example, more than 90 percent of the 5.4 million very-low-income renters with Congressionally defined "worst case housing needs" do not receive federal housing aid and currently spend more than half their meager incomes for rent. Some 78 percent of these renters live in decent, uncrowded housing. Excessive rents relative to their income is their <u>sole</u> housing problem. Tenant-based assistance could relieve their problems, without new housing units being built.

This view is supported by the Heritage Foundation, which stated in the above-mentioned 1989 report:

> **"The problem of the poor is not the unavailability of housing, but a lack of sufficient funds to pay for quality housing. Vouchers give the poor the funds that make this private housing affordable."**

Nevertheless, housing market conditions vary significantly across the country. Although many markets have an ample supply of affordable units, shortages of units affordable to the very poor are common. Most markets also lack an adequate supply of affordable rental units for larger families with children. In some very tight markets, particularly in California and Northeastern metropolitan areas, more widespread shortages of affordable housing are evident. Because of the persistence of localized or special housing shortages, HUD's housing assistance reinvention strategy contains both demand- and supply-side components, though with more emphasis on the former than the latter.

While the centerpiece of the housing assistance reinvention plan is the replacement of project-based subsidies with tenant-based assistance, the current stock of 2.9 million public housing and assisted units will not disappear as a housing resource for low income families. Because of its location and cost structure, HUD expects the overwhelming majority of existing public housing and project-based subsidized housing to continue housing low-income families well into the future.

For the Department's intentions to be fully understood, all elements of the reinvention plan must be taken into consideration.

The Principles of Housing Assistance Reinvention

The Department's reinvention strategy is based on seven premises:

1. Maximum consumer sovereignty -- rental subsidies that make housing affordable to very-low-income households should be tenant- and not project-based. HUD rental assistance should provide maximum household choice and opportunities for mobility.

2. When the responsibilities for administering low-income rental assistance is devolved to localities and states, tenant-based subsidies would continue to be pegged to the local costs of decent rental housing and vary from market to market.

3. Converting project-based subsidies into portable tenant-based rental assistance will force operators to deliver housing more cost-effectively. Requiring owners and operators of HUD-subsidized housing to compete for tenants -- with and without subsidies -- will make them more responsive to resident tastes and preferences.

4. The large majority of public housing authorities are currently capable of competing for low-income tenants in a deregulated market. Their inventories are of sufficient quality to maintain high levels of occupancy if their project-based operating subsidies were to be converted into portable rental assistance in the immediate future.

5. A significant number of public housing developments, especially in large cities, are in such poor condition that they could not successfully compete for tenants if the operating subsidies they receive were to be converted to portable, tenant-based rental assistance. This is also true of many privately owned multifamily housing units with HUD project-based subsidies. Because of the desperate need for low-income housing in these affected communities, housing authorities and private investors must be given an opportunity to improve the condition of as much of this stock as is financially feasible prior to the separation of the subsidy from the unit.

This is why HUD's reinvention plan calls for a transition period during which owners and managers will adjust to a competitive market environment while investing in the physical improvement of their poorest quality stock. During the transition, funds for improving the public housing stock will come from a public housing capital fund, and funds for the improvement of the FHA insured subsidized inventory will come from a new Housing Quality Fund, both of which will be created and capitalized in FY 1996.

6. Budget realities make it impossible to preserve every public and assisted housing unit, regardless of quality or cost. Absent reinvention, budget constraints would require some losses from the project-based inventory. HUD would be forced to propose modifications to the one-for-one replacement provisions of current public housing law which has prevented housing authorities from demolishing obsolete and uninhabitable housing for lack of funds to replace them. It would also mean that the Department would have to recommend dramatic changes in the preservation program which has provided windfall gains to owners of assisted housing who are eligible to prepay their FHA mortgages and cancel their subsidy contracts. With the devolution of administrative responsibilities for rental assistance to localities and states, these same budget realities will permit decisions about which housing can be feasibly maintained as part of a local affordable housing inventory to be made at the local level, where they should be made.

7. An orderly transition period is also required to give owners and managers of assisted housing time to adjust to the discipline of market-based budgeting and the concept of financial feasibility in contrast to the present practice of needs-based budgeting. Those housing authorities and owner entities that cannot make the successful transition to a competitive market environment should be replaced.

The Components of the New Housing Assistance System

HUD's reinvention plan for housing assistance has four elements:

1. *Housing Certificates for Families and Individuals* -- provides tenant-based assistance to income-eligible households at subsidy levels that are pegged to the costs of decent rental housing in the recipients' local market. All tenant-based rental assistance will be pegged to a local fair market rent system.

2. *Ending the direct funding of public housing authorities* -- at the end of a three-year transition period, federal funding of public housing operating subsidies will be converted to portable rental

assistance that residents can use to remain in public housing or move to better housing. These portable rental certificates will be pegged to the same fair market rents as other tenant-based certificates circulating in the local market.

3. *Restructuring the financing of the assisted inventory* -- over time, privately owned, HUD-assisted rental housing will also be converted from project-based subsidies to portable tenant-based assistance. Despite the loss of project-based assistance, the overwhelming proportion of this stock will remain an integral part of local affordable housing inventories through the process of "marking-to-market." This means that the FHA-insured mortgages on these properties will be reduced to levels that can be supported by modest rents that in most cases will be no higher than prevailing Section 8 fair market rents. In some cases, continued use restrictions will be part of the debt restructuring process. In general, this means that current low-income residents who receive rental certificates when project-based assistance is terminated will be able to remain in place if they choose, or they will be able to take their certificates and move to better housing. With their debt having been restructured by FHA, owners of these projects will be able to attract other low-income certificate holders or unsubsidized tenants who can afford to pay market rents. By virtue of the marking-to-market process, HUD expects to be able to preserve the overwhelming proportion of the existing inventory of 3.1 million low-income subsidized housing in low-income use for many years to come.

4. The new Affordable Housing Fund (AHF) will provide localities and states with more flexible funding to enable them to expand affordable housing supplies. Capital from the AHF can be used to leverage other public and private funds for the development and rehabilitation of affordable owner-occupied and rental housing, including low-income-housing tax credits, and funds from state housing finance agencies. The affordable housing financed through the AHF can be made accessible to very low-income persons with rental certificates by underwriting the new supply at rent levels pegged to prevailing local fair market rents.

III. Transforming Public Housing

Public housing, which began 60 years ago as transitional housing for working people who had fallen on hard times, has become a trap for the poorest of the poor rather than a launching pad for families trying to improve their lives. While public housing has worked in many communities, the rigidly bureaucratic, top-down, command-and-control public housing management system that has evolved over the years has left tens of thousands of people living in squalid conditions at a very high cost in wasted lives and federal dollars.

Our new approach to housing assistance for families and individuals has the following components:

- Give residents market choice in the search for affordable housing.

  HUD would give public housing residents the choice to stay where they are or move to apartments in the private rental market. Operating and capital subsidies for housing authorities would be converted to fair market rent-based Housing Certificates for Families and Individuals.

- Break the monopoly of housing authorities over federal housing resources.

  HUD would require housing authorities to compete in the marketplace for low-income residents with other providers of affordable housing.

- Support families that are working to achieve self-sufficiency.

  In the new Housing Certificate program, in addition to giving traditional preferences to seniors and the disabled, HUD will give greater preference to families who are working or are participating in "work-ready" and education programs.

- Change the landscape of distressed inner-city neighborhoods.

  HUD would accelerate the demolition of uninhabitable and non-viable public housing projects. HUD would also end support for construction of "public housing" developments that are exclusively occupied by the very poor.

Transitions:

In FY 1996-1997, in the first of two transition phases, all public housing programs would be consolidated into two accounts for capital expenditures and operating subsidies. A performance-based system would be instituted through deregulation of more

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Transitions:

In FY 1996-1997, in the first of two transition phases, all public housing programs would be consolidated into two accounts for capital expenditures and operating subsidies. A performance-based system would be instituted through deregulation of more than 3,000 well-performing PHAs and partnerships with state and local officials to improve the operations of more than 100 troubled PHAs. Tens of thousands of severely deteriorated housing units would be demolished and replaced by small-scale, scattered-site housing. Public housing rules would be changed to make work pay for residents, give greater preference to working families and people in "work ready" and education programs, and speed evictions of disruptive residents.

In the second phase, in FY 1998, all direct capital and operating subsidies to PHAs would cease, with subsidy funds being converted to portable rent certificates for residents, who would be free to seek apartments of their own choosing. PHAs would be forced to compete for low-income families' business in the private market.

[PUBLIC HOUSING CONSOLIDATION SCHEMATIC]

IV. A New, Entrepreneurial FHA

HUD plays an important role in providing housing opportunities for people whom the private market cannot serve on its own. Working Americans, minorities, and immigrants struggling to provide decent homes for their families, as well as the poor, elderly, and those with special needs have relied on HUD programs. Since its inception 60 years ago, HUD's Federal Housing Administration (FHA) has used the unmatched credit of the federal government to help private enterprise and nonprofits provide decent, affordable housing to 23 million American homeowners and at least 4.5 million renters.

In the last decade, the private housing finance market grew far more sophisticated and efficient at delivering capital to housing, but FHA -- once an effective market leader -- lagged behind. At the same time, fewer and fewer young American families were able to afford their own homes and the gap between rents and what people could afford to pay grew in many parts of the country.

Between 1980 and 1992, the homeownership rate for young families -- headed by people under 35 -- fell from 44.5 percent to 37.6 percent. During a comparable period, from 1978 to 1991, the number of families with children and elderly people paying more than half their incomes for rent, or living in severely inadequate rental housing, grew 50 percent, from 2.4 million to 3.6 million households. Most of the affected households were families with children, who were saddled with rising rent burdens.

The President recently charged HUD with developing an unprecedented public-private partnership to help a record number of families achieve the dream of homeownership by the year 2000. To achieve that goal, HUD must make homeownership affordable for more first-time homebuyers, residents of inner cities and other groups and communities still underserved by the private market. A reinvented FHA could better leverage private capital and reduce government risks to help the nation achieve a record level of homeownership.

The New FHA Corporation

HUD's reinvention of FHA would transform a slow-moving government bureaucracy into a government-owned, streamlined, market-driven enterprise which would use federal credit enhancement to finance expanded homeownership opportunities and the development of affordable rental housing. Continued HUD oversight would ensure that the new FHA corporation would provide state and local governments and community-based housing providers with an effective credit enhancement tool to leverage demand-side subsidies available through Housing Certificates For Families and

Individuals, supply-side subsidies from the Affordable Housing Fund and the Community Opportunity Fund.

Transitions:

In FY 1996 and FY 1998, FHA's existing programs will be consolidated into three: single-family insurance, multifamily insurance and multifamily portfolio restructuring. A new, FHA corporate charter will be implemented.

In FY 1998 and FY 1999, the FHA corporation will complete restructuring of 80 percent of its multifamily portfolio, shift an increasing share of its new, single-family product origination to "wholesale" partnerships and originate more multifamily product through similar partnerships.

FHA's portfolio restructuring will be completed by FY 2000. In subsequent years, FHA's single-family and multifamily products and partnerships will be continually reassessed to insure they remain relevant to the marketplace and the nation's unmet housing needs and safety and soundness goals.

[FHA CONSOLIDATION SCHEMATIC]

V. A New Department of Housing and Urban Development

The consolidation of programs into broad funds and the devolution of program design and implementation to localities and states would require HUD to dramatically change the way it does business. HUD would continue to collaborate with its community and union partners as this transformation moves forward.

HUD would shift from administering multiple programs to supporting local initiatives, while ensuring that federal funds are spent in ways that are fiscally prudent and adhere to national objectives and goals. The shift from program administration to spending oversight would result in a significant downsizing of the Department. HUD's workforce, about 12,000 today, would be cut to less than 7,500 employees over a five-year period, mainly through buyouts and attrition, and the number of field offices would be reduced.

In addition to supporting local initiatives, HUD would reinforce the performance of localities and states by acting as a clearinghouse for information and innovative ideas and a catalyst for the replication of successful local initiatives nationwide.

The following functions will be central to the new way of doing business at HUD:

Performance Measurement and Accountability

HUD will become a model of results-oriented budgeting. HUD would apply clear and simple national performance goals for housing and community economic revitalization and challenge local and state governments to establish additional performance goals based on their priorities. HUD will hold back a portion of funds to reward exceptional performance.

Financial Accountability

HUD will ensure that taxpayer interests are protected in the administration and expenditure of federal performance-based Funds.

Clearinghouse

Each community should not have to reinvent the wheel. HUD will play an important role in identifying and disseminating model housing production and community revitalization strategies that can be replicated in other jurisdictions.

Regulatory Oversight

HUD will continue to provide regulatory oversight in a number of key areas, including fair housing, operation of government-sponsored enterprises, real estate settlement processes, enforcement of lead-based paint standards, manufactured housing, ensuring that federal housing funds are used to create jobs for low-income residents and regulation of interstate land sales.

THE BOTTOM LINE

The reinvention initiative described in this section represents the most dramatic changes proposed for federal housing and development policy in the past 20 years. These recommendations for fundamental change are not made lightly; they are made in recognition that the current way in which HUD conducts its business is outmoded and inefficient, and most significantly they are proposed for the purpose of better serving low- and moderate-income people. In the end, making a positive difference in peoples' lives is all that matters -- and it should be on that ground that these and other proposals are ultimately judged.

Priorities

EXPANDING HOMEOWNERSHIP

GUIDING PRINCIPLES

Owning a home is key to individual economic advancement in America and homeownership is an important goal for Americans. HUD must do everything it can to help more Americans become homeowners.

New public-private partnerships in the nation's housing sector will result in unprecedented cooperation to boost homeownership to an all-time high in America by the end of this century.

A reinvigorated FHA will reclaim HUD's role in helping American families achieve homeownership, particularly lower-income, minority families and non-traditional buyers locked out of the conventional market. HUD will also look to localities and states to help public housing residents and others make the transition from renters to homeowners through the new performance-based funds.

PROGRESS TO DATE

Expanding homeownership has been a key goal for this Administration. For two years, HUD has worked steadily to increase opportunities for affordable homeownership for low- and moderate-income working families. Substantial progress has already been made:

- FHA insured more than 1.3 million single-family loans in FY 1994, including 450,000 for first-time buyers. FHA's FY 1994 single-family loan volume was the second-highest in its 60-year history.

- The upfront premium for Federal Housing Administration (FHA) insured mortgages has been reduced. It is estimated that this change will save homebuyers, on average, $750 over the life of a mortgage.

- FHA's 34-year-old 203(k) Program, potentially HUD's most effective tool to help people buy and rehabilitate existing homes, has been streamlined, making it much easier for homebuyers, investors and lenders to use. As a result, this unique mortgage-insurance program is expected to have a major, positive impact in older neighborhoods as people buy older homes and fix them up in coming years.

- HUD has expanded homeownership opportunities for low- and moderate-income families and strengthened communities by broadening the FHA Single Family

Property Disposition Program, under which HUD-owned homes are sold at a discount to nonprofit groups for rehabilitation and resale to eligible buyers.

- HUD began allowing government agencies to purchase HUD-owned properties for resale to public safety employees, such as police officers, firefighters and paramedics.

- HUD changed the Real Estate Settlement Procedures Act (RESPA) escrow rule to reduce the upfront costs of homebuying and save homeowners billions of dollars. It is estimated that when this rule change is implemented in April, 1995, it will save homeowners nationwide up to $2 billion in escrow fees and save homebuyers an average $250 at closing.

- The Government National Mortgage Association (Ginnie Mae) began a new multiclass securities program, which helps to increase affordable housing opportunities by reducing financial costs for FHA and VA borrowers.

HUD's push to widen the circle of homeownership in America is gaining momentum. A national demonstration to provide downpayment and second mortgage assistance for home buyers, in partnership with cities, states, and nonprofit entities, is being implemented. Homeownership counseling is being expanded and programs that convey FHA-owned properties for homeownership are being developed.

HUD is making FHA more responsive and efficient by better using electronic communication, consolidating processing functions and eliminating duplicative paperwork. For example, FHA has cut its processing time for single-family loan applications from four to five weeks to three to five days. Changes in appraisal rules are expected to reduce the average waiting time for closing on an FHA home mortgage by one to two weeks.

New partnerships are also being developed with mortgage lenders, local and State governments, and housing advocates to increase homeownership opportunities for underserved and unserved populations.

Actions taken by the Administration in its first 24 months have laid a solid foundation for a dramatic increase in homeownership in America by the end of this century. HUD will continue to build on this foundation through program consolidation, restructuring of FHA and expansion and strengthening of public-private partnerships.

TRANSITIONS: 1995

The President has directed HUD to develop a strategy to boost the nation's homeownership rate to a record high by the end of this century.

Recognizing that the most powerful engine for homeownership expansion is the private market, HUD is designing a National Homeownership Strategy that forges a new public-private coalition of housing industry leaders, local and state governments, and housing advocates to pursue national homeownership goals, increase financing availability, cut production costs, open housing opportunities to underserved populations, and focus on specific communities as targeted areas for homeownership.

Two homeownership demonstrations to assist low- and moderate-income first-time homebuyers are being implemented. In the first demonstration, HUD will work with public and nonprofit partners to provide downpayment and second mortgage assistance. In the second, HUD funds will serve as a catalyst for large-tract development of affordable housing in designated "homeownership zones."

FHA underwriting guidelines are being modified to increase homeownership opportunities for nontraditional and underserved borrowers. The guidelines will encourage maximum, prudent flexibility and will be sensitive to fair-lending principles.

FHA insurance in underserved markets is being expanded by conducting innovative demonstrations and entering into joint venture partnerships to service more low- and moderate-income people.

HUD is expanding FHA's single family property disposition initiative and increasing the sale of HUD-owned homes to individuals, nonprofit organizations and local governments to promote local homeownership efforts and neighborhood revitalization. A comprehensive housing counseling program that includes extensive outreach to potential home buyers is also being implemented.

1996 AND BEYOND

HUD's reinvention of FHA will transform a sluggish government bureaucracy into a streamlined, market-driven government-owned corporation which will use federal credit enhancement to finance expanded homeownership opportunities and the development of affordable rental housing.

The new FHA corporation would consolidate FHA's existing insurance programs into single-family and multifamily broad insurance authorities.

The new FHA would rely increasingly on partnerships with well-capitalized, sophisticated financial institutions, including Fannie Mae and Freddie Mac, the Federal Home Loan Banks, private mortgage insurance companies, state and local housing finance agencies, and community-based organizations, to design a variety of products that meet market needs. This new partnership will ensure that FHA insurance and credit enhancement is delivered as efficiently and effectively as possible.

FHA's performance will be judged by the effectiveness of its products in serving diverse needs not otherwise being met in the market place. These new risk-sharing partnerships allow FHA to develop innovative products to meet unique community needs.

Partnerships would include risk sharing, reinsurance, pool loan insurance and other forms of credit enhancement. However, essential current products and delivery systems would be returned to ensure that all markets are served.

Operational changes to reduce costs, losses and streamlined processing will dramatically improve the health of the single-family insurance program.

A new FHA would be authorized to design and price its own products, subject to its ability to meet performance goals measuring social outcomes and impact, budget needs and financial performance. The new corporation will carry out its activities through three operating divisions: single-family credit enhancement, multifamily credit enhancement, and multifamily portfolio resolution.

EXPANDING AFFORDABLE RENTAL HOUSING OPPORTUNITY

GUIDING PRINCIPLES

Decent, affordable housing is a building block of stable family life and a launching pad for economic advancement. Because many Americans must rent, and because there is a serious shortage of affordable rental housing in America today, we must expand tenant-based rental assistance, preserve existing affordable rental housing and expand the production of quality affordable rental housing.

The centerpiece of HUD's assistance is tenant-based assistance, enabling families to afford rental housing in the private market.

Rental properties owned and operated by private owners and managers under various HUD-FHA mortgage insurance and rent-subsidy programs are a vital affordable-housing asset, which must be improved and maintained.

HUD is placing major emphasis on partnerships with community-based, non-profit developers, private developers, state and local governments and financial intermediaries to produce quality, affordable rental housing. HUD is working with developers, local governments, and social service providers to ensure that family support services -- training, education, and work opportunities -- are designed into projects to build momentum for self-improvement and self-sufficiency.

PROGRESS TO DATE

During the Administration's first two years, HUD has provided 101,900 additional households with five-year rental certificates and vouchers and proposed to merge the two similar programs into a single, more efficient program. In addition, HUD provided emergency, 18-month housing vouchers to 22,000 Southern California households displaced by the Northridge earthquake.

HUD has been working for two years to check and reverse the decline of physically distressed and financially troubled assisted housing. We have made significant progress, both on internal management reforms and improving housing and living conditions for residents.

- A 24-member Special Workout Assistant Team (SWAT) has been organized to help field offices resolve physical, financial, and ownership problems at troubled assisted multifamily properties.

- In FY 1994, more than 1,596 action plans were negotiated with private owners to repair and rehabilitate housing complexes, including conversions of multifamily projects to homeownership.

- HUD closed 98 property sales out of inventory and closed 80 foreclosure sales. Closings reflect an inventory reduction of 34 percent for the fiscal year. HUD replaced 324 management agents by September, 1994 and expects to replace a total of 400 agents. HUD foreclosed on 102 individual owners.

- HUD has helped empower residents of HUD-assisted rental housing by rewarding work, expanding family support programs through the placement of service coordinators, creating transitions to homeownership through the preservation of affordable housing, and encouraging residents' involvement in improving their communities.

- SNAP -- Safe Neighborhood Action Plan -- a new partnership with the U.S. Conference of Mayors and the National Assisted Housing Management Association (NAHMA) to combat crime in HUD-assisted housing was launched.

During the Administration's first two years, HUD has begun a number of initiatives to boost production and rehabilitation of affordable housing:

- Risk-sharing agreements with 33 state and local housing finance agencies, Fannie Mae, Freddie Mac, and the National Cooperative Bank have been signed for housing production.

- We have launched the Section 8 Community Investment Demonstration to encourage pension fund investment in multifamily housing production or preservation. HUD awarded $100 million to six pension funds selected to participate in a demonstration that finance affordable housing development nationwide to create 2,500 multifamily units, 1,000 of which will be Section 8 assisted.

- Congress increased HOME funding from $1.275 billion in FY 1994 to $1.4 billion in FY 1995, permitting HUD to fund additional units for low-income people. By November, 1994, more 100,000 units had received commitments under HOME -- 75,500 more units than a year earlier. We have also formed partnerships for production of affordable rental units by using HUD's HOME program as a primary source of federal funds for the construction and rehabilitation of rental units for low-income residents.

- HUD funded 7,665 united (116 projects) of Section 202 Housing for the elderly, totaling $499 million.

- HUD funded 2,559 units of housing for the disabled under Section 811, totaling $157.8 million.

The actions we have taken in 1993 and 1994 have both increased the nation's stock of affordable housing and expanded financing sources for affordable housing development well beyond the government sector. We have worked to meet current affordable housing needs with existing resources and to build a new financial resource base for the future.

TRANSITIONS: 1995

In 1995, HUD will continue to draw on existing programs to increase the number households provided rental assistance, preserve the existing supply of privately-owned subsidized housing and expand the supply of affordable housing.

Assisted-living opportunities for elderly tenants will be increased through increased production under the Section 232 program.

HUD will implement Phase II of FHA's risk-sharing demonstration, expanding the number of partners and the types of risk-share products.

HUD will implement subsidy layering guidelines to effectively integrate the use of FHA insurance with the federal low income housing tax credits.

HUD will seek out sources of capital not now invested in multifamily housing opportunities, identify products, programs and partnerships that will encourage the flow of capital to multifamily housing.

HUD will strengthen enforcement; removing unscrupulous owners and management agents; extensively publicizing HUD's zero tolerance standards.

The Department will more effectively involve tenants in the control of their housing through increased resident management opportunities, outreach and resident ownership.

HUD will continue aggressive efforts to sell HUD-owned multifamily properties and HUD-held notes.

1996 AND BEYOND

HUD will begin to rationalize its rental housing assistance structures into three basic components: Housing Certificates for Families and Individuals to provide housing subsidies to low-income households; an Affordable Housing Fund to support development and rehabilitation of affordable housing, and a new, streamlined FHA corporation to spearhead the restructuring of the assisted housing stock and provide products to enhance multi-family rental housing production.

HUD's reinvention will devolve administrative responsibility for housing certificates to local and state governments who could choose entities other than public housing authorities to administer certificates.

Preservation

A new debt restructuring group within the new FHA corporation would be responsible for restructuring, project-by-project, the debt on the nation's portfolio of assisted housing in a process known as "marking-to-market." This means the debt would be restructured based on the property's true market value, so HUD can reduce costly rent subsidies and secure the properties' physical and financial health.

FHA's restructuring plan would subject assisted housing projects to competitive market forces, improving their financial management and residents' living conditions.

Housing opportunities for current residents would be assured through a combination of portable certificates, and wherever appropriate, continuing project-specific use restrictions.

Housing Production

All federal housing development activities will be consolidated in the Affordable Housing Fund. The Fund would provide localities and states with flexible funding for housing production, rehabilitation and homeownership initiatives.

The new FHA will supplement the role of the Affordable Housing Fund as a financing tool for the development of affordable rental housing. The new FHA will increasingly relying on third-party partners to deliver its mortgage insurance and credit enhancement products.

HUD will continue to update multifamily goals for the secondary market lenders, Fannie Mae and Freddie Mac.

REDUCING HOMELESSNESS

GUIDING PRINCIPLES

No group of people in America lives in greater desperation than those who are homeless. From the beginning of this Administration it has been understood that a department whose name begins with "housing" must address the needs of people who are unhoused.

HUD must acknowledge the true extent and causes of homelessness in America and the federal government must do its part to help men, women, and children who are homeless move beyond the current, patchwork system of emergency shelters and soup kitchens.

According to "Priority: Home! The Federal Plan to Break the Cycle of Homelessness," about 7 million people were homeless at some point in the latter half of the 1980s, and an estimated 600,000 people are homeless in America on any given night. There are two broad, sometimes overlapping, categories of problems that cause homelessness: crisis poverty, including devastating changes in the job and housing markets and in families which push people into the streets; and chronic disabilities, such as mental illness, substance abuse, AIDS, tuberculosis, and other health-related disabilities.

In contrast to previous homeless strategies which focused almost entirely on housing as if shelter itself were enough, HUD has promoted a continuum of care approach that the Department believes is necessary to make real, lasting reductions in the number of homeless Americans.

Under the continuum of care approach, HUD is helping communities develop the housing and services necessary to address the root causes of homelessness through prevention efforts, outreach, transitional housing with job training and other services, substance-abuse treatment, supportive housing for people with mental disabilities, and permanent housing options. The goal of a continuum of care is to provide permanent, affordable housing and appropriate services, where needed, so people who are homeless can become self-sufficient. Not every family or individual will need all steps of the continuum, but communities should develop the full range of services to meet the varying needs of a multifaceted homeless population.

HUD believes nonprofit providers are the key to delivering top-notch housing and services to homeless people. The capacity of local nonprofit agencies to reduce homelessness must be increased by integrating mainstream institutions (e.g., businesses) and resources (e.g., Community Development Block Grants) into local efforts through local homeless boards. It must be further enhanced through federal interagency collaboration, which is a vital element of the President's national plan to reduce homelessness.

PROGRESS TO DATE

For two years, the Administration has been working to forge a coherent, comprehensive, national approach to homelessness that will make a lasting difference in people's lives and result in real reductions in the number of people who are homeless in America.

In 1993, President Clinton issued an Executive Order to establish a single, coordinated Federal Plan to break the cycle of homelessness. In May 1994, HUD, HHS, VA and 14 other agencies released "Priority Home! The Federal Plan to Break the Cycle of Homelessness." These agencies are now implementing this plan, which has received widespread support for its realistic assessment of the problem and its proposals to reduce homelessness.

Federal support for homeless assistance has increased dramatically, enabling HUD to back this new approach to homelessness with real funding muscle. In FY 1994, HUD's budget to assist homeless individuals and families was increased 44 percent, to $823 million, and in FY 1995, it was further doubled, to $1.7 billion. Communities throughout the nation are already benefiting from these funding increases proposed by President Clinton and enacted by Congress.

In 1993, Congress approved the Clinton Administration's Innovative Homeless Initiatives Demonstration Program, with funding set at $100 million. HUD has selected the District of Columbia, Los Angeles, Denver, Miami, the San Francisco Bay Area, and Philadelphia as demonstration areas to develop continuum of care systems. Innovative approaches such as performance-based contracting and a "social contract" spelling out the respective rights and responsibilities of the community and people receiving assistance highlight these demonstration initiatives.

Increased funding has enabled HUD to support hundreds of nonprofit organizations and city homeless programs. A total of 422 grants, awarding more than $766 million in homeless assistance, were announced by HUD in FY 1994. Grants were approved in all 50 states and Puerto Rico. The awards made in FY 1994 are expected to help an additional 195,000 families and individuals who are currently homeless find shelter or receive essential services. For the first time, in FY 1994, 100 percent of all Supportive Housing Program grants were awarded to programs incorporating a comprehensive and coordinated continuum of care approach. These HUD-funded programs include emergency, transitional and permanent housing assistance for homeless people, as well as critical mental health, outreach and other supportive services.

HUD gave special attention to the needs of homeless people with particularly acute problems, including people with AIDS and people who live in New York City subway tunnels.

Even as HUD has continued to provide homeless assistance through multiple, existing programs during the Administration's first two years, all current programs have been infused with the new continuum of care philosophy. Funding consolidation will result in acceleration of this trend.

TRANSITIONS: 1995

HUD is working with Congress to enact the consolidation of McKinney programs in order to merge six separate programs into a single, flexible grant, allocate funds for the consolidated program through a needs-driven formula to states and cities, and foster comprehensive homeless assistance in America's cities, enabling homeless persons to leave the streets and achieve self-sufficient lives.

Fifteen thousand certificates will be made available to help homeless families and persons with AIDS obtain permanent housing.

HUD is finalizing the regulations implementing the recently enacted Base Closure Redevelopment and Homeless Assistance Act. HUD will work to ensure that redevelopment plans foster growth which addresses economic redevelopment needs, affordable housing needs, and homeless-assistance needs of communities adjoining closed military bases.

HUD is working with communities to help ensure that reducing homelessness is a central part of consolidated plans which communities must prepare to receive CDBG funds.

1996 AND BEYOND

The consolidated homeless block grant would be kept separate during a three-year transition period, to enable jurisdictions to develop a continuum of care for their homeless populations. The homeless block grant would be consolidated into the new Affordable Housing Fund in fiscal year 1998, and local and state governments would address homelessness in their plans for these funds.

CHANGING PUBLIC HOUSING

GUIDING PRINCIPLES

Housing should be a starting place for personal and family mobility and self-improvement. Working in partnership with residents and community leaders, HUD can ensure that federally assisted housing and rental assistance promote this goal.

HUD is transforming public housing as it exists today because the current system has failed many residents, especially people living in public housing in some of our larger cities. HUD plans to convert operating subsides for public housing agencies to rental assistance for residents, to give them the choice to stay where they are or move to apartments in the private rental market.

By giving residents a real choice in housing, HUD will encourage communities to create mixed-income developments where work and education are valued and role models are present to instill positive values. HUD will eliminate the worst examples of public housing, where law-abiding citizens and their families are forced to live in constant fear, virtual prisoners in their own homes.

Just as importantly, HUD will shift the focus, and much of the responsibility for providing affordable housing opportunities to communities. HUD will encourage these communities to place a higher priority on jobs and economic development, training programs, and the creation of partnerships between residents, nonprofit organizations, and affordable housing developers. Those housing authorities that provide quality housing will continue to do so; those which do not will, and should, be eliminated.

PROGRESS TO DATE:

For the first two years of this Administration, HUD has been working steadily to transform public housing, both through physical improvements and initiatives to make public housing safer places to live which offer residents real opportunities for education, job training and self-advancement.

An Office of Distressed and Troubled Housing Recovery was created to turn around specific developments by intervening aggressively with housing authorities in Washington, D.C., Philadelphia, New Orleans, Chicago, Baltimore, Houston, Detroit and Kansas City.

Under the HOPE VI program, $1.01 billion in grant agreements were executed with 33 severely distressed developments to finance their comprehensive revitalization.

The Youth Apprenticeship Program was initiated to increase the availability of job training and career opportunities for public and assisted-housing youth. HUD has helped public housing residents take greater leadership roles and build stronger public housing communities through the Tenant Opportunity Program (TOP). For example, this year, HUD has funded $25 million in TOP grants to 257 residents groups for substance-abuse treatment, health care needs, day care centers, and resident security patrols.

Housing authorities have been given greater flexibility in setting resident-selection preferences, based on local housing needs and priorities. This makes possible a better mix of incomes among public housing residents, in contrast to previous selection criteria which concentrated the poorest of the poor in public housing.

HUD has helped public housing residents working to make their communities safer and drug-free by initiating a new interagency effort, Operation Safe Home, to combat violent crime and white collar crime and fraud in public and assisted housing. In 1994, HUD awarded over $228 million to public and Indian housing authorities to combat drug abuse and drug-related criminal activity.

HUD has completely revamped its modernization program. Red tape has been cut and needless bureaucracy has been eliminated, making the program more flexible and easier to use, and increasing PHAs' ability to expedite commitment of billions of dollars already in the modernization pipeline.

The actions already taken by HUD in the Administration's first two years are the initial steps along a path leading to decent, affordable housing for low-income people that is both an asset to the community and compatible with conventional housing.

TRANSITIONS: 1995

HUD is stepping up the pace of its progress along this path in 1995:

HUD is supporting leveraging of public funds to promote mixed-income communities and scattered-site housing by cultivating public/private partnerships with HOPE VI grantees.

HUD is also encouraging the use of Section 8 certificates to help speed the relocation of residents from projects that should be demolished.

1996 AND BEYOND

Under HUD's reinvention, at the end of a three-year transition, HUD would get out of the direct funding of public housing by converting project-based public housing subsidies to tenant-based rental assistance.

The transition would be completed in two steps by fiscal year 1998.

For FY 1996 and 1997, HUD would deregulate all PHAs to make them more effective developers and managers of low-income housing. HUD would aggressively work with local and state governments and other groups to improve more than 100 severely troubled housing authorities. These PHAs would be on probation. HUD then would move the 10 to 15 most troubled housing authorities that cannot be restored through a two-year, receiver-like process, divesting them of properties and management control.

HUD would consolidate all public housing programs into two programs -- a Public Housing Capital Fund and Public Housing Operating Subsidies. Funds would continue to support the formation and operation of resident councils.

Localities and states would have the option to receive all housing funds through Housing Certificates for Families and Individuals.

In FY 1998, no housing authorities would receive funds directly from HUD; they would compete for capital and service funds through a locality or state. Localities and states would have the option of replacing non-performing housing authorities with community-based groups or others.

All formerly project-based public housing operating subsidies would be converted to completely portable certificates.

Public housing residents would have the choice of staying or moving, using their portable certificates to help pay for housing on the private market. Public housing authorities would compete with private landlords for subsidized and unsubsidized low-income families.

OPENING HOUSING MARKETS

GUIDING PRINCIPLES

Housing opportunity must be made a reality for all Americans. The availability of homeownership opportunities and rental housing free from discriminatory impediments is essential to strengthening America's communities. HUD must expand housing choice and eliminate discriminatory barriers to fair housing.

There is no question that housing discrimination remains a serious problem in America today. A 1992 Boston Federal Reserve study found that African Americans are 60 percent more likely to be rejected for home mortgage loans than whites in similar economic circumstances. According to a 1993 report, 34 percent of African Americans and 25.5 percent of Hispanics were rejected for home loans, compared to 15.4 percent of whites and 14.5 percent of Asians.

HUD is taking steps to ensure that housing markets are open to all qualified home seekers, that action is taken at the federal, state and local levels to eliminate obstacles to fair housing, and that federal fair housing and civil rights laws are vigorously enforced.

PROGRESS TO DATE

HUD has taken action on a number of fronts to reduce barriers to homeownership caused by unlawful discrimination. Over the past year, HUD has undertaken a review of the Federal Housing Administration underwriting standards and business practices to ensure that policies put in place to protect the financial strength of the FHA fund also promote access to homeownership for minorities and other protected classes. The Department has developed the Mortgage Lending Information System, which permits the user to overlay census data with Home Mortgage Disclosure Act data for monitoring purposes. HUD has also stepped up investigation of fair lending and property insurance complaints.

To provide clarity to the lending industry, and a unified voice on fair lending policy, HUD, the Department of Justice, and the nation's bank regulatory agencies have adopted a joint Policy Statement on Discrimination in Lending. The statement provides a vehicle for coordinating federal fair lending policy and resolves a number of issues to assist further lenders' efforts to comply with federal fair lending standards. HUD continues to work with these agencies through the Interagency Task Force on Fair Lending to further coordinate federal fair lending policy and enforcement efforts.

In an effort to establish broadly accepted fair lending standards, the Secretary signed best practices agreements with the Mortgage Bankers Association and a number of individual lenders. The agreement with the MBA commits both organizations to work in partnership to eliminate lending discrimination and to expand opportunities for affordable housing.

HUD has moved to open up rental markets through improved enforcement of the Fair Housing Act. HUD has restructured its fair housing enforcement operation to improve service to individuals who have been subjected to housing discrimination in the private market. Ten enforcement centers have been established throughout the country to more efficiently and effectively enforce "Title VIII" of the Fair Housing Act.

To encourage the devolution of fair housing enforcement responsibility to state and local governments, HUD has sought increased funding for the Fair Housing Assistance Program. This program allows HUD to reimburse states and localities which have laws "substantially equivalent" to the federal Fair Housing Act for enforcement activities.

Federal efforts to affirmatively further fair housing have proceeded on several fronts. HUD has settled several major law suits which involved allegations that the Department had fostered segregation and housing discrimination through its programs over the years.

In a historic move, HUD took over the public housing authority in Vidor, Texas because it had failed to protect the civil rights of minorities. In early 1994, federal officials helped four African-American families move to the Vidor development. Twenty-one African-American families are now in residence there.

TRANSITIONS: 1995

HUD will take the lead in convening a Cabinet-level Fair Housing Council to ensure that federal programs further fair housing. The Fair Housing Council is in the process of reviewing the programs of all of the member agencies and will suggest program redesign elements where necessary to implement fair housing goals.

HUD will reduce housing discrimination through aggressive enforcement of Title VIII of the Fair Housing Act and all civil rights statutes. HUD will provide increased support to local and state agencies for their enforcement of substantially equivalent fair housing laws and ordinances, and to private fair housing organizations for enforcement, education and outreach activities. HUD has increased resources for such local efforts by one third.

HUD's Title VIII function will be significantly improved in

1995. A business practices re-engineering initiative (BPR) will be conducted to improve the quality of fair housing investigations, to increase efficiency, and to speed the resolution of complaints.

HUD will promote access to homeownership through a voluntary affirmative marketing agreement with the National Association of Homebuilders. This partnership agreement will enlist both organizations in a marketing and outreach effort to promote fair and equal homeownership opportunities for all persons regardless of race, color, religion, sex, handicap, familial status or national origin. In an effort to obtain broad compliance with fair lending standards, HUD will continue to negotiate best practices agreements with mortgage lenders. Our goal is to sign at least 75 voluntary agreements with mortgage companies.

HUD will issue proposed and final regulations implementing HUD's statutory responsibility to promote affordable and fair housing goals for the government sponsored enterprises. Under the new regulation, Fannie Mae and Freddie Mac will have clear guidance on their obligation to support fair lending objectives through their secondary market operations.

To ensure that localities and states receiving federal housing and community development funds employ them in a way that furthers fair housing goals, HUD must certify that they are furthering fair housing laws. HUD will provide fund recipients with guidance on how to comply with this requirement.

HUD will promote free and fair housing choice by providing counseling for recipients of Section 8 certificates who are working or work-ready.

HUD will increase housing choice for persons with disabilities, including those living in public and assisted housing reserved for the elderly. Section 8 certificates will be made available through PHAs to enable people with disabilities to access "mainstream" housing which is not exclusively for frail or needy populations.

1996 AND BEYOND

HUD is moving to consolidate programs and initiate performance-based funding. Localities and states would be given greater flexibility to administer federal housing resources in exchange for complying with a series of conditions that promote national goals and objectives. Compliance with Federal fair housing laws would be one of the critical federal conditions that govern administration of the new performance-based funds.

CREATING COMPETITIVE CITIES

GUIDING PRINCIPLES

America's economic health and social stability are inextricably linked with the health and stability of its cities. Our ability to compete and win in the global economy depends on the private sector's ability to continually adapt to the changing demands of the global marketplace, by seeking greater efficiencies and responding to changing demands. Most of this change occurs in and around our cities, which continue to be our resource centers as well as our population centers. It is also in and around our cities where educational resources as well as economic resources and jobs are concentrated, that Americans find their greatest opportunities for educational, economic and social advancement. For everyone who is willing to work, our cities have always been and continue to be America's most promising gateway to a better life.

It is critical to the future of our nation that we preserve and strengthen our cities as engines of economic adaptation and growth, and as dynamic centers of opportunity for tens of millions of people who yearn for a better life for themselves and their children.

HUD must work to strengthen America's cities by helping city, county and state elected officials and agencies work with business, unions, chambers of commerce, educational institutions, foundations, nonprofit organizations, citizen groups and others to fashion and implement metropolitanwide housing and economic development strategies. We must ensure that good jobs paying livable wages are accessible to people seeking work, and that people have the education and training they need to take advantage of these job opportunities.

PROGRESS TO DATE

HUD is focusing on Empowerment Zones and Enterprise Communities to demonstrate that federal agencies can work together in areas that have suffered from years of neglect. In June, 1994, communities submitted 292 applications for urban Empowerment Zones and Enterprise Communities.

In December, 1994, six communities were designated as urban Empowerment Zones, two as supplemental urban Empowerment Zones and 65 were designated as Enterprise Communities. With HUD's help these communities will jump start revitalization efforts in their most distressed neighborhoods through local partnership initiatives. These initiatives will seek to attract new jobs to these neighborhoods and prepare residents to fill these jobs and move into the nation's economic mainstream.

HUD increased localities' ability to spur neighborhood retail and industrial development and expand economic opportunity for low-income people by making its Section 108 Loan Guarantee Program easier for local governments to use, especially in conjunction with other HUD programs, such as the Economic Development Initiative, CDBG = Jobs and Empowerment Zones and Enterprise Communities tax incentives. Localities' use of the Section 108 Loan Guarantee program increased from $229 million in Fiscal 1993 to $350 million in Fiscal 1994.

HUD allocated $19 million in Economic Development Initiative grants which leveraged more than $250 million in additional economic investment, to create jobs for low-income people.

HUD consolidated planning, application and reporting requirements for four separate formula-grant programs -- CDBG, HOME, Emergency Shelter Grants and Housing for People with AIDS -- into a single, seamless process. This change, effective in 1995, dramatically reduces paperwork for localities and states, and gives them more flexibility. It also encourages them to forge comprehensive, communitywide and regional action plans that involve community-based groups and individual residents and integrate economic and housing development strategies with strategies for making neighborhoods safer, reducing homelessness, increasing housing mobility, expanding job opportunities through training and education and strengthening families. This new, consolidated planning process will serve as the basis for local and state applications for HUD's new performance-based funds.

Localities have been provided with new tools to remove obstructions that hinder job creation (e.g., land assembly, "brownfields") through expanded technical assistance.

Institutions of higher learning have been urged to participate in strengthening their communities and regional economies by recognizing, rewarding, and showing examples of university-community partnerships.

TRANSITIONS: 1995

HUD will implement the Empowerment Zones and Enterprise Communities program, expediting waivers for selected communities and taking other actions to ensure the program's success.

HUD will continue to create jobs for low-income persons by allocating up to $50 million in Economic Development Initiative grants.

1996 AND BEYOND

Reinvention would consolidate current HUD grants for community economic development into a single Community

Opportunity Fund. Consolidated programs would include Community Development Block Grant (CDBG), Youthbuild and the Economic Development Initiative.

The Community Opportunity Fund would provide localities and states with flexible funding for the economic revitalization and renewal of distressed communities. The Fund would provide formula grants to local and state governments, with a national set-aside for Native Americans. The allocation split between localities and states would be the same as under the CDBG program, 70 percent for localities, 30 percent for states. Jurisdictions would be permitted to use the Federal grants for a wide range of activities, including:

- Assistance to community-based organizations for neighborhood revitalization efforts;
- Business loans to entrepreneurs to build supermarkets or commercial centers in distressed communities;
- "Mobility to work" efforts that link residents in distressed communities with job opportunities elsewhere in the metropolitan area; and
- Environmental cleanup of "brownfield sites" to prepare for economic or housing development.

To achieve maximum leveraging, a loan guarantee mechanism would be made available to localities and states along the lines of the existing Section 108 program.

As with the other two Funds, a strong framework for results-oriented accountability would be established.

Five percent of funds for this consolidated program would be set aside to reward metropolitan areas that develop integrated economic development strategies.

From fiscal year 1996 to 1997, CDBG, Youthbuild and EDI would be immediately consolidated into the new Community Opportunity Fund.

REVITALIZING NEIGHBORHOODS

GUIDING PRINCIPLES

The benefits and opportunities of expanding urban economies must reach all corners of our greater metropolitan areas. The best way to enable all urban residents, including those who live in distressed neighborhoods, to participate in economic expansion is through bottom-up, community-based initiatives.

HUD must support the efforts of local government, community-based nonprofit groups, churches, neighborhood leaders, and community residents to develop and carry out initiatives to develop affordable housing, and promote business and job growth block by block, neighborhood by neighborhood.

PROGRESS TO DATE

Community Development Block Grant funding increased from $4 billion in FY 1993 to $4.6 billion in FY 1995. Among other activities, CDBG supports a wide range of community development activities, including enabling community-based organizations to carry out numerous revitalization activities. Recent CDBG regulations have made it much easier for localities to use CDBG for innovative development activities that create jobs and focus on neighborhood revitalization.

Numerous barriers to effective implementation of the HOME program have been removed, providing both localities and community-based organizations with greater flexibility to use HOME for neighborhood revitalization. Fifteen percent of HOME grants go to community-based organizations.

HUD designated 20 innovative community development corporations to receive tax benefits for programs to create jobs and provide training for low-income residents.

HUD awarded $38 million in Youthbuild grants to help disadvantaged youth learn employment skills through constructing and rehabilitating housing for low-income and homeless people.

The Office of Community Viability was established to empower neighborhood groups to participate in local community decision-making.

HUD invested in the National Community Development Initiative, which uses HUD funds to leverage funding from private foundations for capacity building in community development corporations. Twenty million dollars was invested by HUD and was matched by $67 million from private foundations and corporations.

Communities have been empowered by improving housing production capacity in neighborhoods; supporting the development of housing production capacity in community development corporations; and institutionalizing alliances with foundations, churches, national community organizational, and CDCs.

HUD has given citizens and groups support by creating an innovative software package to provide clear information about how communities spend their money. This software gives citizens easy and understandable access to a map which shows where federal funds are being spent in their neighborhood. Through the consolidated plan, HUD has also sponsored coordinated technical assistance sessions for consolidated planning that bring together all elements of communities.

Collaboration among foundations, corporations, nonprofit groups, community organizing networks, advocacy organizations, arts and sports organizations, local and state governments, and other federal agencies, has been fostered.

Greater emphasis has been placed on addressing the needs of underserved populations, such as migrant farmworkers, Americans living in the colonias and in rural areas, and Native Americans in tribal communities.

TRANSITIONS: 1995

HUD will fully implement job programs, such as the CDBG = Jobs initiative to facilitate creation of jobs for low-income workers.

1996 AND BEYOND

Participation by community-based organizations would be a critical element under the new performance-based funds.

To ensure the continued, strong participation of community-based groups in housing development, current legally mandated set-asides for such groups as community housing development organizations ("CHDOs") would be incorporated in the Affordable Housing Fund.

ORGANIZING FOR PERFORMANCE AND RESULTS

GUIDING PRINCIPLES

The primary goal of reinvention is to transform HUD into a customer-driven, results-oriented organization. The overriding purpose of the various planned organizational changes, program restructuring and consolidation efforts is to ensure that HUD's programs and services reach the Department's customers and ultimate beneficiaries in a responsive and timely manner. The Department will maximize the use of all available staff, administrative and program resources in working cooperatively with cities, counties and states in true partnerships. Rather than being perceived as an obstacle to change, HUD will work with communities to identify and eliminate barriers to effective use of program resources to address local needs. It will provide technical assistance and consulting services to local officials in solving community problems.

The Department will continue the efforts initiated in 1994 to streamline both the organization and decision-making process. Through further delegation of authority and simplification of program requirements, field employees will be empowered to provide more efficient and results-oriented service to customers. There will be maximum flexibility in addressing program and organizational issues based on particular local situations in cities and states.

The partnership between HUD management and the employee unions will continue to be an underlying principle in planning and implementing further organizational and programmatic change in the Department.

PROGRESS TO DATE

The Department has made significant progress in building a field structure which places customers at the top of the organizational chart. Major changes in the organizational structure in 1994 facilitated improved program delivery and performance accountability. Assistant Secretaries are held accountable for the success of their programs and have empowered their respective field staffs to make numerous decisions previously made in Headquarters. The entire HUD field organization has been restructured to reflect this new philosophy. As part of this process, the Regional Office structure, often characterized by duplicative review processes, has been eliminated. The ability of the field to respond to customer needs was significantly enhanced through these changes.

Secretary's Representatives and State and Area Coordinators were appointed to oversee internal coordination of HUD programs and assure that the Department was providing coordinated quality program delivery to localities. Each office is responsible for providing effective communication, coordination and support to governors, mayors and state and local officials. Through the establishment of Community Empowerment Teams, field managers engaged customers to share their insights regarding community needs and the quality of HUD customer service.

Recognizing that our employees are a valuable resource and essential to the accomplishment of the HUD mission, HUD management signed national partnership agreements with AFGE and NFFE employee unions. In furtherance of this effort, we collaborated with our union partners in improving workplace conditions and planning and implementing the field reorganization. Enhanced opportunities for training the work force to meet its new responsibilities resulted from the establishment of the HUD Training Academy and initiating Individual Performance Plans for employees. The importance of diversity and equal employment opportunity and affirmative employment was recognized through nationwide EEO training for all managers and diversity training for all field staff.

TRANSITIONS: 1995

HUD's new field structure will move even more decision making to the local level and ensure that we are responsive to the needs of customers in each state. Staff will be available to consult with governors, mayors, industry representatives, residents and community groups to assist them in improving the lives of the many people who benefit from HUD's programs.

The continuing effort to streamline the Department's operations will result in decreased costs as we organize in ways that maximize the use of limited human resources and take full advantage of training and technological advances. All of these reorganization efforts will continue to be developed in partnership with the unions.

TRANSITIONS: 1996 AND BEYOND

Further adjustments in the field structure will be made to accommodate the reduction in the number of programs and to further reduce operating costs. In order to ensure that the Department is responsive to the needs of our clients, the field will be structured in a manner that ensures the provision of appropriate and accessible services to states, cities and localities.

MANAGING FOR PERFORMANCE AND RESULTS

GUIDING PRINCIPLES

HUD has spent two years addressing management deficiencies that accumulated over the past 15 years. HUD must continue to streamline decision-making and improve customer service throughout the country.

HUD must rebuild its capacity to serve communities, and HUD has begun this to do this by changing its organizational structure and instituting new systems to assure performance accountability.

HUD must refashion itself as an entrepreneurial, efficient, leaner organization, committed to enhancing productivity through training and investment in technology.

PROGRESS TO DATE

HUD is establishing a performance-driven organization designed to achieve clear missions, committed to attaining measurable results and managed through a strategic performance system that integrates budget, policy, personnel, and organization to focus on performance.

HUD has turned itself into a "right-side-up" organization, where field offices are the building blocks of the organizational structure and where the regional layer of administration is eliminated. HUD's approach is team-oriented, working in partnership with communities, respectful of the ideas of community providers.

Longstanding deficiencies in resource management practices are already being corrected, and an internal consulting capacity to help managers implement changes in programs and support reinvention is being developed.

HUD has invested in its workforce and improved workplace conditions through collaboration with the Department's union partners and the establishment of an academy to train employees. In accordance with the President's Executive Order, HUD signed national partnership agreements with the unions, AFGE and NFFE.

HUD has placed a priority on Equal Employment Opportunity and the Affirmative Employment Program to demonstrate respect for diversity.

Nationwide EEO Training for all managers, and diversity training for all field office staff have been established.

HUD has invested in training for employee productivity and performance by establishing a HUD Training Academy, Individual Development Plan, and partnerships with the University of District of Columbia and the University of Maryland.

A Strategic Performance System that tracks commitments and progress has been created.

HUD is developing and implementing a departmentwide framework to correct longstanding deficiencies in resource management practices, and systems to protect against fraud, waste and abuse have been set up.

TRANSITIONS: 1995

HUD will implement a new performance management system that is fully integrated with HUD's strategic and operational plans, and that assures management accountability for results; reduce costs and improve outcomes of HUD's operations and services; develop and implement a mid-level career development program; and upgrade all aspects of technological infrastructure.

The Office of Administration will be reorganized to support the National Performance Review objectives, to enhance customer service, and to serve as an in-house consultant service for the Department-wide reorganization.

1996 AND BEYOND

Administration will continue to refine and develop its support to ensure a high level of customer service as the Department is restructured.

'93 calendar?