PERFORMANCE MEASUREMENT AND INCENTIVES IN HUD'S MAJOR FUNDS

Discussion Draft
Office of Policy Development and Research

Performance measurement in HUD's reinvented housing and community development funds is intended to give States and localities the flexibility they need to address local problems, while holding them accountable for the results. Communities will be rewarded not for following federal rules or for adhering to prescribed procedures, but for producing tangible results that address the needs of low-income families and communities. Performance requirements and incentives will be phased in gradually over several years, to give jurisdictions (as well as HUD staff) ample time to develop workable measures, goals, and benchmarks.

Over time, performance measures and incentives will help advance several interrelated objectives. They should make States and localities more accountable to community residents as well as to HUD for using federal resources to produce tangible outputs. They should encourage more systematic planning and evaluation at the State and local level, gradually enhancing our collective understanding about what it takes to improve the quality of life in urban communities. And they should enable HUD to document the cumulative outputs and outcomes of federal spending for housing and community development programs.

Performance Measurement

The HOME, CDBG, and Homeless Assistance funds will all establish explicit minimum *performance requirements* that reflect basic statutory requirements and ensure the fundamental integrity of the programs. Examples include low-income targeting, rate of expenditures, required set-asides, caps on spending for administrative and/or operating costs, financial integrity, and compliance with applicable civil rights statutes. States and localities that receive funding must meet these basic performance requirements. HUD will develop a simple set of standardized indicators to measure performance in these critical areas, and will maintain comparable data on the extent to which communities across the country meet or exceed performance requirements.

In addition to these minimum performance requirements, HUD will work with States and localities to develop their own *performance measures* and *benchmarks* that reflect excellence in program administration and progress toward local and national goals. The Consolidated Planning process will be strengthened and refined to support systematic performance measurement, building upon the recent benchmarking process for Empowerment Zones and Enterprise Communities. Specifically, communities will use their Consolidated Plans to set multi-year *outcome goals*, identify specific activities intended to advance their goals, and establish *output measures and targets* that track progress toward the achievement of their goals.

- *Outcome goals* reflect changes in physical or socio-economic conditions that a community ultimately seeks to achieve. For example, a city might commit to reduce the poverty rate in a distressed neighborhood from 20 percent to 15 percent over ten years, or to reduce the share of families paying unaffordable rent burdens from 15 percent to 5 percent. These outcomes must be consistent with broad national program objectives, but will reflect local circumstances and community priorities.

- *Output measures* track progress toward a community's long-term outcome goals. They reflect tangible results of programmatic activities that are logically related to the desired outcomes. To illustrate, suppose a community committed to increasing its homeownership rate by 5 percentage points over ten years as a long-term outcome goal. The local Consolidated Plan would describe specific activities intended to advance this goal, and establish year-to-year targets for each activity's outputs. Examples might include the number of families participating in homeownership counseling, the number of first-time homebuyers receiving down-payment assistance, or the number of Section 8 recipients using certificates to become homeowners.

States and localities will be held accountable for meeting their locally defined output targets, but they should *not* be held directly accountable by HUD for achieving their outcome goals. Instead, jurisdictions should be encouraged to revise and refine their programs and activities in an ongoing effort to achieve long-term outcome goals. To illustrate, a jurisdiction might be extremely successful in meeting its targets for job training and job placements, but might still experience an increase in overall unemployment and poverty because of larger economic trends in the region or the nation as a whole. Over time, serious evaluation efforts at local, State, and federal levels will be needed to assess the effectiveness of specific outputs in advancing larger outcome goals. In the meantime, jurisdictions can and should be held directly accountable for setting and achieving ambitious output targets.

To assist States and localities in developing performance measures, HUD will establish a set of broad measurement categories that reflect the basic national objectives of each of the major programs. For the HOME Program, for example, categories might include increased homeownership, housing rehabilitation, new rental construction, and rental housing preservation. Within each category, HUD will work with grantees to develop a menu of possible performance measures that can be collected and reported efficiently and that reflect tangible outputs for families and communities. States and localities will then have the flexibility to select from these measures, or to define alternative measures, based upon local needs and priorities as established in their Consolidated Plan.

States and localities will be responsible for collecting, maintaining, and reporting reliable data on both outputs and outcomes. HUD monitoring and verification (including periodic audits) will focus primarily on the minimum performance requirements that reflect basic statutory requirements, but will also review communities' measures of programmatic accomplishments and outputs. Consistent and reliable indicators for many long-term socio-economic outcomes -- such as poverty or homeownership rates -- are collected nationally by federal agencies, and HUD expects to work with the Census bureau and other data collection agencies to improve the availability of relevant outcome indicators at the local level.

Performance Incentives

HUD will use performance indicators in several complementary ways. First, communities that fail to meet the minimum (statutory) performance requirements will initially receive closer oversight and targeted technical assistance, and will ultimately face financial penalties. Moreover, these communities will not be eligible for any performance bonuses that may be available. Communities that systematically fail to comply with the strategies outlined in their Consolidated Plans, or that repeatedly fall substantially short of their output targets will receive increased oversight and technical assistance, and may become ineligible for performance bonuses. High performing communities -- that meet or exceed fundamental federal performance requirements and set and achieve tangible performance targets -- will be rewarded by eligibility to compete for challenge grants and by greater flexibility in the use of program funds (discussed further below).

Cities and States (as well as HUD staff) will need several years of learning and experience before the process of performance measurement is fully implemented. Initially, therefore, eligibility for bonus funding and enhanced flexibility should be contingent only upon the achievement of minimum performance requirements. After a year or two, the establishment of tangible performance goals and the achievement of these goals could be introduced as conditions for receiving bonus funding. Over the longer term, HUD may develop benchmarks of acceptable performance for a wide range of performance measures, based on experience and analysis. These benchmarks could be use to discourage jurisdictions from setting unreasonably low goals, knowing they could easily achieve them and qualify for bonus funding.

Challenge Grants. Each of HUD's three major housing and community development funds will be supplemented by a pool of bonus funding, which is designed to reward well-performing communities and to allow for targeted investments in areas of special national and local concern. Challenge grant funding for the HOME Program will support large-tract homeownership opportunities for low- and moderate-income families. For the CDBG Program it will support targeted job creation initiatives (including brownfields cleanup), and for the consolidated homeless program it will support innovative programs for individuals and families with multiple problems.

Only jurisdictions that satisfy the minimum performance requirements, *and* set and achieve their own, locally defined output targets will become eligible to compete for challenge grants. Additional criteria will be used to determine which of these well-performing jurisdictions win challenge grant funding, including specific measures of performance under the basic program as well as the proposed uses of the supplemental funding.

Program Flexibility. Well-performing jurisdictions will also receive increased flexibility in using federal resources to implement their comprehensive housing and community development plans. Specifically, States and localities that satisfy minimum performance requirements and that set and achieve reasonable performance targets will have the option to "flex" up to 10 percent of their funding under HOME, CDBG, and the consolidated homeless program. In other words, a jurisdiction could take 10% of its allocation from one or more of these programs and use it for another program. Eligible jurisdictions will indicate through their Consolidated Plan submission how they would use this enhanced program flexibility.

Data Democratization. In addition to the performance incentives created by challenge grants and the flex option, HUD will publish both outcome and output goals and achievements for all program recipients every year. Publication of these data will allow citizens and advocacy organizations to assess the relative performance of their communities, encourage States and localities to target federal resources to the needs and priorities of their residents, and create pressure locally to improve performance where it is found lacking. For example, residents of one community might find that their local housing program is only rehabbing half as many units as a neighboring community, at the same level of funding, or that their jurisdiction is not targeting resources where the needs are greatest. Over the long-term, the democratization of performance data can create profound incentives for more effective citizen participation and enhanced program performance.

Technical Assistance and Capacity Building

Technical assistance and peer support will be needed over the long-term to help States and localities build their capacity to define meaningful outcome and output measures, collect reliable data efficiently, and report programmatic outputs in a way that is meaningful to citizens. HUD will work with jurisdictions to develop a range of creative technical assistance strategies. Possibilities include national or regional conferences in which communities already using performance measures train less experienced jurisdictions; community-based capacity development, linking faculty from area universities to state and local performance measurement teams; and long-term mentoring relationships that pair experienced jurisdictions with communities new to performance measurement and monitoring.

In addition, HUD could convene a "peer advisory panel," consisting of representatives from state and local grantees, advocacy organizations, and community-based groups, and staffed by experts in public sector performance measurement. This panel might lead the effort to develop categories of performance measures, and a menu of possible performance measures for use by States and localities. Over time, the peer advisory panel may develop performance benchmarks, or standards of excellence, for key performance measures. To illustrate, after several years of experience with performance measurement, the panel might conclude that a "well performing" HOME program should be able to rehab a given number of single-family homes per $100,000 of funding. Similarly, the panel might estimate a reasonable cost per person for homeownership counseling, or estimate the number of housing quality inspections per full-time staff member. These benchmarks would make it easier for citizens to assess the performance of their state and local governments, and might be used as a basis for recognizing a select group of "outstanding performers" each year, which would further encourage communities to set and achieve challenging performance goals.

The concept of a peer advisory panel might also be implemented at the local or regional level. For example, HUD field offices could organize panels consisting of representatives from several jurisdictions as well as community-based organizations and advocacy groups. These local peer panels could support the efforts of jurisdictions to define and implement meaningful performance measures, encourage collaboration across jurisdictions within a region, and give low-income community representatives a "seat at the table" in the development and implementation of performance measures.

Meaningful Community Participation

Representatives of low-income and community-based advocacy organizations argue that many jurisdictions fail to take HUD's citizen participation requirements seriously. If this is the case, performance measures and goals may not reflect the perspectives of all segments of the community, particularly low-income and minority residents. Making adequate citizen participation a fundamental performance requirement would highlight its importance and give community groups more leverage in their efforts to influence local strategies. HUD might consider going even further, however, empowering community-based organizations to help monitor the performance of their jurisdictions, alerting HUD if a jurisdiction is failing to meet a program's minimum performance requirements. Such a "challenge" process that would give community-based organizations a formal opportunity to question the performance of grantee jurisdictions on key statutory requirements as well as locally defined performance goals, essentially extending HUD's monitoring capacity and making grantees accountable to citizens for performance. Whether or not community groups are given an explicit role in the performance monitoring process, it may be unrealistic to assume that community-based organizations, especially those representing low-income people, have the time and capacity to review and analyze performance data effectively. Therefore, it may be necessary to provide funding or other forms of support to community-based organizations in order to make the democratization of data truly meaningful.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

March 28, 1995

M-95-08

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Alice M. Rivlin AMR

SUBJECT: Performance Partnerships

The President's FY 1996 Budget includes several proposals that dramatically change the way the Federal government works with States to achieve the goals we share. These "Performance Partnerships," which we have proposed in the areas of environmental protection, public health, and housing, among others, represent a fundamentally new way of doing business. Neither the block grants of the early 1980s and the myriad narrow categorical programs that exist today integrate flexibility and accountability. In contrast, Performance Partnerships are an opportunity for the Federal government and the States to exchange funding restrictions for a new, incentive-based focus on performance and outcomes.

Performance partnerships work best: (1) when the Federal Government intends that services be delivered at State and local levels, (2) where there is shared agreement among Federal, State and local partners about national goals and objectives, and (3) where progress toward the goals and objectives can be measured.

Performance partnerships consolidate funding streams and eliminate overlapping authorities, create incentives to reward desirable results and reduce micromanagement and wasteful paperwork. They begin to move programs away from process and focus on outcomes and outputs as the basic measure of success. The partnerships seek to empower communities to make their own decisions about <u>how</u> to address their needs, and to be held accountable for results.

During the second phase of reinventing government, one of the major questions that we are asking is whether or not the work we do in Washington can be done better by States, localities or private citizens. You should use the attached "Performance Partnerships - Summary and Guiding Principles" as a set of *"rebuttable presumptions"* as you design performance partnerships in your agency.

Our goal must be to dramatically restructure the relationship between the Federal Government and the States and localities to create stronger partnerships. Performance partnerships provide a new opportunity to provide States and localities more flexibility to solve their problems, in return for more accountability for results.

Attachment

PERFORMANCE PARTNERSHIPS

SUMMARY

WHAT IS A PERFORMANCE PARTNERSHIP?

- CONSOLIDATED PROGRAMS WITH
  - INCREASED FLEXIBILITY
  - ACCOUNTABILITY FOR PERFORMANCE

WHERE DO THEY MAKE SENSE?

- IF PROGRAMS ARE DELIVERED AT STATE AND LOCAL LEVELS,
- THERE IS SHARED AGREEMENT ON GOALS AND OBJECTIVES, AND
- YOU CAN MEASURE RESULTS.

HOW ARE THEY DIFFERENT FROM BLOCK GRANTS?

- OUTCOMES (NOT PROCESS) ARE THE PRINCIPAL MEASURE OF SUCCESS, AND
- FUNDS AND FLEXIBILITY ARE TIED TO IMPROVED PERFORMANCE

HOW ARE THEY "PARTNERSHIPS"?

- FEDERAL, STATE, AND LOCAL GOVERNMENTS AND PROVIDERS JOINTLY DESIGN THE PROGRAM AND MEASURE PROGRAM RESULTS
- PARTNERS WORK TOGETHER TO REMOVE BARRIERS TO SUCCESS

PERFORMANCE PARTNERSHIPS
Guiding Principles

Current Federal grant system.

A great deal of the current grant system has broken down in a tangle of good intentions gone awry. There are too many funding categories, suffocating regulations and paperwork, misdirected emphasis on remediating rather than preventing problems, and no clear focus on measurable outcomes. The system stifles initiative and squanders resources without achieving sufficient results. Performance partnerships offer improvements to the current system.

What is a performance partnership?

Performance partnerships provide increased flexibility on how a program is run in exchange for increased accountability for results.

- Increased flexibility includes:
  - -- consolidated funding streams
  - -- elimination of micro-management,
  - -- devolved decision-making (national goals and objectives, with much more flexibility for State and local partners to determine HOW these are achieved), and
  - -- reduced wasteful paperwork.

- Increased accountability for results means the partners will:
  - -- begin to treat outcomes and outputs as the basic measure of success (e.g., teenage pregnancy rate rather than number of visits to a clinic), and
  - -- create funding and other incentives to reward desirable results and performance towards results.

Where do performance partnerships make sense?

Performance partnerships work best:

- When the Federal Government intends to deliver services at State and local levels,
- Where there is shared agreement among Federal, State and local partners about national goals and objectives, and
- Where progress toward the goals and objectives can be measured.

Checklist of Guiding Principles for Designing a Performance Partnership

A number of key characteristics should be considered in designing and implementing performance partnerships:

1. Program consolidations
2. Partnership
3. Increased Flexibility
4. Improved Accountability
5. Measuring Performance
6. Performance Incentives
7. Shift in the Locus of Decision-making
8. Administrative Simplification
9. Administrative Savings
10. Implementation
11. Entitlement Programs

The checklist which follows contains principles which build upon the description of the Administration's six proposed "performance partnerships" in the President's FY 1996 Budget (see pages 152-154). The guiding principles should be regarded as ***"rebuttable presumptions":***

(a) In any policy arena in which there is a strong national interest and a history of Federal grants and other assistance to State and local governments, agencies should give strong consideration to developing one or more performance partnerships.

(b) If a proposed performance partnership is not consistent with a particular principle, there should be a compelling argument about how the program is otherwise addressing local needs, stops micromanagement, and holds its partners accountable for results.

1. Program consolidations

- Proposals should restructure current grant program authorizations to consolidate programs and/or funding streams and eliminate overlapping authorities:

  -- Every effort should be made to merge funding streams which now force recipients to wastefully isolate administration and delivery of one program from another to avoid being penalized by auditors.

2. Partnership

- Federal, State and local partners should jointly design the partnership and the strategies to implement it.

- Performance partnerships should accommodate different program strategies with different State and local partners.

3. Increased Flexibility

- Performance partnerships should:

  -- Promote multiple approaches to meeting national objectives,
  -- Allow federally-funded activities to be fully integrated with State,

local, and provider activities, and
- -- Allow flexibility so that State and local institutional forces and incentives achieve the desired results.

- If State plans are necessary, multiple "State Plan" requirements should be replaced with one "community-based strategic plan." Such a plan would outline basic strategies and tactics, and accommodate much more diversity from community-to-community and state-to-state than existing approaches.

- Partnerships should:

  - -- Minimize "required" service requirements, and

  - -- Provide multi-year funding.

4. Improved Accountability

- Federal agencies and State or local partners should develop, communicate, and monitor measurable program goals and report progress toward achieving them:

  - -- Think in terms of shared accountability.

- Performance partnerships should focus on *outputs* and *outcomes* (real results) rather than detailed assessment of the inputs and process used by States and localities:

  - -- An emphasis on results means, for example, concentrating on getting cleaner air (not the existence of State environmental regulations) or whether educational goals are being achieved (not the level of school expenditures).

- Notwithstanding increased flexibility, performance partnerships will maintain Constitutional and critical, national public policy requirements:

  - -- Non-discrimination requirements, for example, will apply.

5. Measuring Performance

- Performance partnerships should be structured, managed, and evaluated on the basis of *results* (i.e., progress in terms of agreed upon measures of performance).

- Performance measures will typically include a mix of outcome and output measures, including both measures of progress toward national goals and measures of important negative consequences that are likely to result from program activities.

- Partnerships should focus on *outcomes* (not *process*) as the principal criteria by which to measure success.

- Authorizing legislation should include a statement of:

  -- "National goals and objectives" that the partnership seeks to help achieve, and

  For example: "parental responsibility."

  -- Types of "performance information" that would indicate what types of information would indicate progress toward the national goals and objectives.

  For example: "paternities established"

- The Federal agency should be authorized to develop national goals and objectives where the authorizing legislation does not specify them.

  For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop national goals and objectives."

- "Performance measures" and performance targets should *not* be incorporated in authorizing legislation.

  For example: "The Secretary shall, in conjunction with States, local governments, providers and consumers, develop and update measures for determining State or local performance in achieving progress toward the national goals and objectives."

Accordingly, performance measures and targets should be:

-- Mutually developed by the partners, or
-- In the case of certain core indicators, developed by the Federal Government in consultation with grantees, and supplemented with indicators mutually agreed to by the grantees.
-- Refined over time in consultation with the grantees.

Performance measures require specification of at least the following:

(1) Type of performance information.
(2) Data source (or sources).
(3) Acceptable levels of precision and accuracy.
(4) Domains of estimations (e.g., States, counties, etc.)
(5) Frequency of data collection.

(6) Time period covered.

For example: for "paternities established"

(1.1) Percentage of new welfare cases for which paternities have been established, for each fiscal year cohort of new welfare recipients.

(1.2) Percentage of the total welfare caseload for which paternities have been established, as of the close of each fiscal year.

(2) Selected welfare system case records and information obtained through external quality control review.

(3) Total estimation error not to exceed 7% at the county level and/or 1% at the State level.

(4) The sample design must support precision and accuracy requirements for State (county) level estimates or for the population generally (e.g., the entire sample may be allocated across the State, "n" cases allocated per county, or even "n" cases per 1,000 per county).

(5) Annually.

(6) The last fiscal year.

- Performance agreements:

-- Federal agencies should develop individual performance agreements with each State/locality receiving funds.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop individual performance agreements which specify the program goals and objectives, program performance measures, performance targets, and the timeframes for achieving the performance targets."

- Assessing progress:

-- The authorizing legislation should include a requirement that the Federal agency work with the partners to develop a system for assessing the extent of progress toward national objectives.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop a system for assessing the extent of progress toward the national objectives."

-- At least annually, the partners should assess the level of performance achieved, the extent to which performance meets or exceeds agreed-on performance targets, and the extent to which performance has changed over time. These reports should acknowledge the influence of important external factors that may have affected the performance levels achieved.

-- From time to time, annual performance reports should be supplemented by program evaluations that estimate the net program impacts caused by the program. These program evaluations would use research designs to estimate the difference that the program makes (i.e., the difference between (a) the actual performance levels achieved, and (b) the performance levels that would have been achieved in the absence of the program).

- Data collection:

-- The partners will have to identify or develop data systems to define and assess "results" and "improvement in results."

For example: "The Secretary is authorized to withhold up to 5 percent of the amount appropriated to the program to support the development and updating of data systems tied closely to the national goals; the development of performance agreements with States; and data quality assurance and data quality improvement; and research and development of performance measurement methodology."

-- Partners should consider whether and how to get data that is generalizable, and consistent among and within States overtime.

- Refining the measures over time:

-- It is expected that the performance measurement process and indicators will evolve over time, as Federal agencies and grantees develop greater experience with this approach.

6. Performance Incentives

- Agencies should consider whether funds should be allocated in part on performance (but other factors such as need may also be determinants, including population, poverty, disease incidence, morbidity, and mortality, as appropriate).

- Partners should be recognized and rewarded for success -- both high performance and improved performance.

- Recipients should be rewarded for achieving ambitious, rather than readily-attainable, performance targets.

- Some portion of the funding should be based on actual performance:

  -- Some portion of funding should be available to the Federal agency as an incentive for States and localities that make improvement.

  For example: "The Secretary is authorized to reserve up to 10 percent of the funds to be used for performance incentive awards for recipients making process toward meeting national goals."

  -- "Up to" is important, since it will first be necessary to get a sensible measurement system in place, before attempting to award performance incentives.

  -- Rewards should not be directed toward only "exceptional" performance, but allow the Secretary to reward high or improved performance (i.e., "progress toward achieving national goals").

- High-performing States and localities should be rewarded with additional flexibility or reduced matching requirements.

- Similarly, disincentives should include reduced flexibility:

  -- A requirement to shift funds into practices successfully used by high performing States and localities, or

  -- Requirements for additional commitments of State or local resources, or

  -- Reduction or termination of Federal funding.

- Partners should avoid punishing innovation and experimentation:

  -- Keep in mind: no one is accountable for results *now* under the current system.

- Since there is shared accountability for results, Federal agencies should also respond to problems by providing technical assistance about promising practices:

  For example: "The Secretary shall provide technical assistance to the States to help them expand and improve ...."

- States and localities should be held harmless for cases where outcomes are not achieved despite the use of best practices (given the current state of knowledge).

7. Shift in the Locus of Decision-making

- The partners should decide largely on the *"What"* and leave most of the *"How"* to States and localities.

- Performance partnerships should seek to empower communities to make their own decisions about how to address their needs, and to be held accountable for results.

- Front-line, local-level providers should have greater flexibility and responsibility for service design, delivery, and results.

- Partnerships should permit customers and beneficiaries to shape programs to better match their individual needs -- by giving them voice, choice, and the means to integrate services from multiple providers.

- Recipient jurisdictions should have flexibility to set local benchmarks that are consistent with national program goals.

8. Administrative Simplification

- Partners will seek to reduce barriers to success.

- Partnerships should resemble "performance contracts" (i.e., contract for measurable results) rather than traditional cost-reimbursement, "level-of-effort" grants.

- Performance partnerships should reduce Federal regulation of inputs, and avoid micro-management, and wasteful paperwork:

  -- Rigid and costly program restrictions should be eliminated.

- Procedural, detailed application, financial management, auditing and expenditure reporting requirements should be eliminated or simplified to permit comprehensive service delivery:

  -- The focus should be "Is the community achieving measurable results that indicate progress toward national goals?" -- rather than "Were the dollars spent on the identified problem?"

- Federal agencies should, to the extent feasible, establish or negotiate performance targets, rather than specify the manner of compliance that States or localities must adopt.

- Reporting and monitoring should focus on performance (outcomes and outputs that indicated progress toward strategic goals) rather than inputs.

9. Administrative Savings

- Administrative savings should be realized through consolidation and program and administrative simplification:

-- Consolidated planning requirements, for example, should enable more integrated services with less overhead.

10. Implementation

- Proposals should consider:

  -- Phased-in implementation,

  -- Initially, shifting toward performance partnerships with self-selected or "volunteer" States/local partners that are ready.

- Partnership proposals should accommodate different degrees of devolution between Federal, and various State and local governments.

11. Entitlement Programs

- Performance partnerships for entitlement programs might:

  -- Initially allocate funds to States to match what they currently receive,

  -- Adjust over time for growth of poverty population and inflation,

  -- Authorize the Secretary to provide extra funds to States during economic downturns,

  -- As an incentive (since funding levels are fixed), permit high-performing States to re-direct their matching funds.

- Eligibility may need to be simplified, for example, to transform public assistance offices from bureaucratic eligibility offices into family support and job preparation centers linking a range of services.

- There may be a need to set specific common measures, but allow for flexibility for local circumstances:

  -- Measures should be both population- and client-based.

OFFICE OF THE VICE PRESIDENT

WASHINGTON

March 8, 1996

MEMORANDUM

TO: Distribution

FROM: Elaine C. Kamarck
Senior Policy Advisor to the Vice President

SUBJECT: Review of Secretary Cisneros' Performance Agreement with the President for the Department of Housing and Urban Development

Secretary Cisneros' proposed Performance Agreement for FY 96 is enclosed for your review. This review should ensure that commitments in this agreement are consistent with the Administration's policies and represent significant public outcomes expected from the Department of Housing and Urban Development.

HUD will address concerns raised as a result of this review at a formal meeting at NPR in April.

Your involvement in this process is vital in ensuring that the NPR's initiative of formal performance agreements is institutionalized. If you have any questions please contact Hap Hadd, tel # (202) 632-0150, fax # (202) 632-0390.

Please send your comments by fax to Hap no later than March 27.

Attachment

Distribution:

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-6000

February 22, 1996

ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

Ms. Elaine Kamark
Senior Advisor to the Vice President
National Performance Review
Office of the Vice President
Old Executive Office Building
Washington, DC 20501

Dear Ms. Kamark: Elaine

Enclosed is the Department of Housing and Urban Development's proposed Presidential Performance Agreement for Fiscal Year 1996. This agreement reiterates the six priority outcome objectives that Secretary Cisneros established for the Department in our 1994 Presidential Performance Agreement, and establishes tangible output measures and targets for each.

An earlier draft version of this Agreement was reviewed by staff of your office as well as staff of the Office of Management and Budget. The comments we received have been incorporated into this final version. And the specific performance measures and targets presented in this Agreement are reflected in the Management Plans for the Department's various operating units.

HUD has made significant progress over the last three years in holding itself and its employees accountable for achieving results that benefit American families and communities. HUD's performance on priority objectives improved significantly in 1995, when we successfully accomplished 84 percent of our target outputs. The 1996 Agreement represents an important next step in performance measurement and accountability for the Department.

I look forward to working with you on final plans for the signing and publication of this 1996 Presidential Performance Agreement. If you or your staff have any questions or need additional information, you should contact Margery Turner, the Deputy Assistant Secretary for Research, Evaluation and Monitoring at (202) 708-4230.

Sincerely,

Michael

Michael A. Stegman

Enclosure

Performance Agreement

between

The President of the United States

William Jefferson Clinton

and

The Secretary of Housing and Urban Development

Henry G. Cisneros

Fiscal Year 1996

I. Introduction

The American people deserve a government that works better and costs less. The departments and agencies of the federal government have made significant progress in improving performance and restoring the faith of the American people in their government. But further changes still need to occur for this broad goal to be fully realized.

The purpose of performance agreements with senior officials is to establish clarity and consensus about the priorities for departmental management. They are intended to improve the management of the Executive Branch and are not intended to create any legally enforceable rights. From these agreements should flow the program and management priorities of the departments. These agreements represent the basis for continuous improvement as we reinvent our government to meet the needs and expectations of the American people.

This Agreement reflects the major objectives developed by Secretary Henry G. Cisneros for the Department of Housing and Urban Development (HUD), as well as specific performance measures to be accomplished in Fiscal Year 1996. It also reflects Administration objectives for support of HUD's performance.

II. The Department of Housing and Urban Development

Under the leadership of Secretary Cisneros, the employees of HUD adopted as their Mission:

To Help People Create Communities of Opportunity.

The programs and resources of the Department will be targeted toward helping Americans create cohesive, economically healthy communities all across the Nation. At the core of this mission is a set of fundamental commitments: a commitment to community, a commitment to family, a commitment to economic lift, a commitment to individual rights and responsibilities, and a commitment to ending spatial separation by race, national origin, income, disability, age, and class.

III. Priorities

To accomplish its Mission, Secretary Cisneros has focused activities at the Department of Housing and Urban Development on six priority objectives.

- **Assist Homeless Persons and Families**

The homeless are among our Nation's poorest and most vulnerable citizens. They not only lack housing; the homeless are often without hope, self-esteem, or family support. Recent estimates indicate that as many as 600,000 people are homeless on any given night, and the number of Americans who experience homelessness sometime over the course of five years may exceed 7 million. Single adults account for about three quarters of all homeless people. But the fastest growing segment of the homeless population is families with children, almost all headed by single mothers. Many homeless people face severe challenges in their personal lives, including drug and alcohol addiction, chronic mental illness, a history of abuse by parents or partners, and physical disabilities.

HUD works in partnership with State and local governments and non-profit organizations to create a "continuum of care" in individual communities which can prevent homelessness and help those who are already homeless regain maximum stability and self-sufficiency. State and local grantees and non-profit assistance providers are responsible for assessing local needs, and for using federal resources to develop effective systems that encompass outreach, prevention, emergency assistance, transitional shelter and services, and permanent housing. The Department has significantly simplified its grant application process and program regulations, and is seeking further to consolidate its five McKinney Act programs into a single homeless assistance block grant, which would be awarded by formula.

- **Expand Decent and Affordable Housing for Low-Income Renters**

Most poor households in America are renters. The loss of a job or a sudden household expense is all that separates many poor renters from homelessness. Even among wage earners, millions cannot afford decent-quality housing without government assistance. Between 1989 and 1993, the number of very low-income renters with acute housing needs--paying more than 50 percent of income for rent or living in severely substandard housing--rose by almost 700,000, reaching 5.6 million in 1993. As is the case among the homeless population, families with children have been the fastest growing population facing acute housing problems.

HUD's best-targeted programs for addressing acute rental assistance needs are Section 8 Certificates and Vouchers, which enable poor households to afford the private market rental cost of a modest house or apartment. However, the average household wait for Section 8 assistance now averages over two years, and can be 10 years or more in the nation's largest cities. HUD also directly intervenes in making available a stock of affordable housing through the public housing program and the Federal Housing Administration's (FHA) multifamily housing programs, and most recently through partnerships to develop housing with pension fund managers, nonprofit organizations, and grantees under HUD's Community Development Block Grant (CDBG) and HOME programs. Public housing is locally owned and operated by some 3,400 public and Indian housing agencies (HAs), and provides a stable supply of affordable rental housing for 1.3 million households. While most public housing is operated successfully, there are over 100,000 vacant units and hundreds of unlivable projects managed by 100-odd HAs with severe management deficiencies. Under the FHA-insured multifamily housing programs, HUD makes available mostly good quality, privately-owned housing to 1.7 million renter households. The FHA multifamily programs, which like public housing are also generally successful, nonetheless suffer from an original design flaw -- the subsidies are used to pay debt that is insured by FHA -- so that if HUD is too tough in enforcing housing quality and other standards, FHA ends up paying an insurance claim and eventually owning some real estate through foreclosure.

In FY 1996, HUD will address the need for affordable housing by increasing the number of Section 8 Certificates and Vouchers, to the extent provided for in Congressional appropriations. This assistance will be provided to households most in need, and will be accompanied by efforts to encourage economic self-sufficiency. HUD will also work in partnership with cities, nonprofits, labor unions, pension funds and others to expand the supply of affordable housing. Lastly, HUD will assure that the assisted housing stock developed in past decades under public housing and FHA-insured programs provides the best possible housing at the least cost to the public.

- **Make Homeownership a Reality for More Americans**

Owning a home serves as one of the main symbols of economic and social success and is a primary aspiration for most Americans. Homeownership provides a pathway to wealth accumulation and long-term economic security. It creates economic prosperity for families and communities and acts as a dynamic generator of economic growth. However, in recent years, homeownership has remained beyond the reach of many Americans, especially minorities and those who have modest incomes or live in central cities. Between 1940 and 1980, the national homeownership rate rose steadily. But during the 1980s, the rate fell from a historic high of 65.6 percent to 64.2 percent, representing 1.4 million renters who otherwise would have become homeowners.

To reverse this trend, HUD has joined together with leaders in the housing industry, representatives of non-profit organizations, and officials at all levels of government to develop a National Homeownership Strategy. This Strategy combines private and public sector resources and commitments with the goal of raising the national homeownership rate to an all-time high of 67.5 percent by the year 2000. This represents an increase of approximately 8 million American homeowners. HUD plays an important role in the National Homeownership Strategy, primarily through FHA programs. FHA is helping to make homeownership a reality for more Americans by insuring mortgages for working families, many of whom are becoming homeowners for the first time. FHA is working substantially better today than it has in the past, reaching out to form constructive partnerships with the lending industry to meet the needs of underserved communities.

- **Reduce Racial Barriers**

Housing discrimination and segregation undermine the health and vitality of America's cities, suburbs, and rural communities. Discrimination denies Americans full and free choice about where to live, while denying many neighborhoods the services and resources they need to thrive and grow. Minority homeseekers routinely face discrimination when they search for housing. For example, African American and Hispanic homeseekers who visit real estate or rental agents to ask about housing advertised in the newspaper experience discrimination almost 50 percent of the time. Because of the persistence of discrimination in housing, American communities remain profoundly divided on the basis of race and ethnicity, and many minority neighborhoods are denied full access to the capital and services that are essential for their health and vitality.

HUD is committed to combatting discrimination in America's communities, making full and free housing choice a reality for all our citizens. HUD helps to reduce barriers to housing choice through aggressive and efficient enforcement of the Fair Housing Act, and through voluntary agreements with the real estate and mortgage industry to reform private market practices. In accordance with its new oversight authority, HUD establishes and monitors performance goals for Fannie Mae and Freddie Mac, the two government-sponsored enterprises that provide secondary market resources to the private housing finance sector. And finally, HUD is committed to meeting its obligation to aggressively combat discrimination and segregation in federally assisted housing programs.

- **Empower Communities**

Many of America's communities suffer from severe social and economic distress. The growing concentration of poverty in urban neighborhoods and older suburbs has compounded problems of poor education, discrimination, joblessness, teen pregnancy, drug abuse, and crime, perpetuating a vicious cycle of poverty, inequality, violence, and despair. Between 1970 and 1990, the number of people living in areas of concentrated poverty (where 40 percent or more of the residents are poor) grew from 3.8 million to 10.4 million. High-poverty neighborhoods cannot support the businesses and civic institutions necessary for a healthy community. Often, retail businesses close down, employers move elsewhere, and civic and religious institutions find it impossible to survive.

HUD helps to empower communities through the CDBG and HOME programs, which provide funds by formula for reinvestment in the physical, economic, and social needs of cities, counties, towns, and states. These communities are empowered to develop their own programs and funding priorities within broad national objectives, and articulate these priorities in a Consolidated Plan describing the needs of the local community and explaining how federal dollars will be used to meet these needs. Meaningful citizen participation is an integral part of the Consolidated Planning process, ensuring accountability and involvement by all segments of the community. Moreover, the law currently requires recipients of HUD financial assistance to use these resources (to the greatest extent feasible) to provide economic opportunities for low-income people and community residents.

The Empowerment Zones and Enterprise Communities (EZ/EC) Program also helps to empower some of America's most severely distressed communities. This initiative targets tax incentives and flexible grants to 72 severely distressed urban communities over ten years, providing these communities with the tools they need to bring back private capital, create jobs, invest in education and training, and link residents to economic opportunities.

- **Create an Environment that Supports Teamwork and Organizational Excellence**

HUD is committed to improving its performance, in order to maintain the integrity of its operations, improve the confidence of the American people in its programs, and work better with less. The new HUD will deliver its programs efficiently and effectively, and respond flexibly to the needs of its customers, clients, and partners. Customer service and customer satisfaction will play a central role in management and program administration. HUD is re-engineering its organizational structure and program delivery mechanisms in order to maximize the use of shrinking staff resources and provide better service to customers. State-of-the-art technology is being employed to develop and enhance an integrated management system that supports program delivery and holds managers accountable for specific goals in their individual areas of responsibility.

IV. Commitments

To ensure progress toward the Department's priority objectives, the Secretary is committed to the accomplishment of measurable outputs. Specific performance measures and targets for Fiscal Year 1996 are presented below for each of the Department's six priority objectives.

Assist Homeless Persons and Families
Provide grants and technical assistance to support local continuum of care strategies
Develop continuum of care systems to help homeless people move to self-sufficiency in more than 220 cities and in all 50 states and the District of Columbia.
Increase the number of transitional housing beds that are linked to supportive services by 20,000, from a current level of approximately 83,000.
Increase the number of permanent housing units that are linked to supportive services by 1,800, from a current level of approximately 12,000.

Expand Decent and Affordable Rental Housing
Assist poor households with acute housing needs.
Continue to serve 27 percent of the targeted population with rental assistance through all HUD programs.
Provide certificate/voucher assistance to 30,000 additional households.[1]
Promote self-sufficiency among households receiving Section 8 and Public Housing assistance
Initiate a national demonstration of large-scale job training and placement models for public housing.
Ensure that the public housing stock remains a decent source of affordable rental housing.
Demolish 13,500 units of public housing with severe physical, financial or locational problems.
Reduce the percentage of vacant public housing units from 7.5 percent to 7 percent.
Increase the share of "high performing" housing authorities from 50 percent to 52 percent, and reduce the share of "troubled" housing authorities from 3 percent to 2 percent.
Ensure that the FHA-insured, multifamily assisted stock remains a decent source of affordable rental housing.
Develop action plans for 514 multifamily projects that are classified as troubled and potentially troubled.
Close the sale or foreclosure on 126 troubled multifamily projects.
Reduce the inventory of troubled multifamily projects by 513 projects.

[1] Dependent upon final Congressional appropriations.

Make Homeownership a Reality for More Americans
Promote homeownership opportunities through the National Homeownership Partnership
Increase the national homeownership rate from 65 percent for the third quarter of 1995 to 67.5 percent by the end of the year 2000.
Provide financing assistance to homebuyers underserved by the conventional market
Increase the share of first-time homebuyers in each HUD Field Office by 1 percent over Fiscal Year 1995.
Provide mortgage insurance to 200,000 minority homebuyers or homeowners.

Reduce Racial Barriers
Enforce the Fair Housing Act vigorously and efficiently
Increase the share of fair housing complaints resolved from 81 percent to 86 percent.
Continue to achieve consensual resolution of 45 percent of all fair housing complaints closed during the Fiscal Year.
Provide funding to support the sustainability of 6 new private fair housing organizations.
Increase from 5 to 8 the number of private fair housing organizations funded to carry out long-term enforcement projects.
Initiate 5 fair housing complaints involving allegations of discrimination with regional or national implications.
Reach voluntary agreements with the real estate and mortgage industry
Renew 2 voluntary fair housing partnership commitments from housing industry groups with private fair housing organizations.
Sign 30 voluntary best practices accords for fair lending.
Combat discrimination in HUD-assisted housing programs
Negotiate voluntary agreements or initiate enforcement action in 90 percent of investigations after cause has been found.
Support the creation of 25 housing search assistance centers
Monitor the government sponsored enterprises (GSEs)
Ensure that at least 50 percent of GSEs' overall business (about $125 billion) serves very-low, low- and moderate-income homebuyers and renters, and residents of areas underserved by mortgage markets.

Empower Communities
Support State and local community-building strategies
Support the development of 987 Consolidated Plans.
Meet or exceed the statutory requirement that 70 percent of CDBG funds are used for activities which serve low- and moderate-income persons.
Support State and local initiatives generating 100,000 new jobs.
Support State and local housing development strategies
Support production or rehabilitation of 50,000 affordable housing units under the HOME program.
Leverage $1.50 in other resources for every $1 of federal HOME funding.
Expand enforcement of the Fair Housing Act's accessibility standards for new housing construction in 10 states.
Administer the urban Empowerment Zone and Enterprise Communities Program
Complete and sign memoranda of agreement with all urban EZs and ECs, including agreed-upon performance benchmarks for each.
Deliver a technical assistance conference or workshop to all EZs and ECs to help in the implementation of their strategic plans.
Ensure that all EZs and ECs have access to the Internet, and create a homepage on the World Wide Web to facilitate information sharing.
Monitor and report on each EZ/EC's progress toward agreed-upon benchmarks.

Create an Environment that Supports Teamwork and Organizational Excellence
Improve customer service and increase customer satisfaction.
Publish customer service standards for Headquarter and field offices
Design and implement mechanisms for monitoring customer complaints.
Streamline, downsize, and reduce the costs of administration.
Actively pursue passage of legislation which will consolidate 60 programs into 3 performance-based funds
Reduce the number of FTEs to 7,500 by 1999.
Expedite the competitive procurement process, reducing processing times by 20 percent.
Enhance workforce skills and empower front-line workers.
Increase the number of Academy-sponsored training hours facilitated by distance learning to 30 percent of all Academy-sponsored training hours.
Reduce the ratio of supervisors to non-supervisors to 1:10 by 1997.
Deliver accurate and timely information on budgets and programs.
Reduce the number of financial management systems from 83 to 45 by 1998.
Develop and implement the next generation of HUD's technical architecture.
Increase the use of Electronic Data Interchange (EDI) technology by 500 percent to all Department-wide trading partners.

The Department will monitor and report progress on these commitments. Moreover, the Department will conduct formal evaluations which assess the long-term effectiveness of its programs and performance in achieving its socio-economic objectives.

To ensure the comprehensive implementation of the priority objectives and performance measures throughout the Department, the Secretary will enter into intra-departmental Agreements with each Assistant Secretary or the equivalent in the Department. These Agreements will reflect detailed program and management plans which the Secretary has formulated with the Assistant Secretaries to advance the objectives of the Department.

To maintain focus and to systematically improve the performance of the Department, there will be periodic reviews of progress, discussion of difficulties encountered, and agreement on corrective actions. These will occur between the President and/or his designees and Departmental officials and, with greater frequency, within the Department.

V. Administration Support

In order to advance these objectives and to achieve these performance targets during Fiscal Year 1996, the Administration is committed to providing the Department of Housing and Urban Development with specific support:

- Expedited approval from the Office of Management and Budget. Such expedited approval shall not be unnecessarily withheld.

- Flexibility in regard to position classification and pay from the Office of Personnel Management.

VI. Terms of Agreement

This agreement will be revised as needed to reflect changes in budget, policy, personnel, customer needs, or other factors that may affect the accomplishment of objectives.

This Agreement represents our joint commitment to creating a Department of Housing and Urban Development that works better and costs less and fulfills our sacred trust to the American people.

Henry Cisneros

Henry G. Cisneros
Secretary of Housing
and Urban Development

William J. Clinton
President of the United States