

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

POLICY DEVELOPMENT AND RESEARCH

RESEARCH AND TECHNOLOGY

PROGRAM HIGHLIGHTS

| | ACTUAL 2000 | ENACTED 2001 | ESTIMATE 2002 | INCREASE + DECREASE - 2002 vs 2001 |
|-------------------------------|----------------|-----------------|------------------|--|
| (Dollars in Thousands) | | | | |
| Obligations - Basic R&T | \$45,171 a/ | \$45,817 | \$43,504 | -\$2,313 |
| Obligations - PATH | \$9,950 | \$10,043 | ... | -\$10,043 |
| Total | \$55,121 | \$55,860 | \$43,504 | -\$12,356 |

Budget Authority

(Appropriations):

| | | | | |
|----------------------------------|----------|-------------|-------------|-----------|
| Enacted or Proposed - Basic R&T | \$35,000 | \$43,500 | \$43,404 | -\$96 |
| Rescission | ... | -\$96 | ... | +\$96 |
| Enacted or Proposed - PATH | \$10,000 | \$10,000 | ... | -\$10,000 |
| Rescission | ... | -\$22 | ... | +\$22 |
| Subtotal | \$45,000 | \$53,382 | \$43,404 | -\$9,978 |
| Outlays - Basic R&T | \$37,585 | \$48,529 a/ | \$52,513 a/ | +\$3,984 |
| Outlays - PATH | \$5,659 | \$9,471 | \$7,487 | -\$1,984 |
| Total | \$43,244 | \$58,000 | \$60,000 | +\$2,000 |

a/ Includes obligations/outlays for international activities funded from the U.S. AID transfer.

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2002 Budget proposes an appropriation of \$43 million for research, studies, technology and policy analysis administered by the Assistant Secretary for Policy Development and Research (PD&R). The fiscal year 2002 Budget request reflects no increase in funding from the fiscal year 2001 appropriation of \$43 million for basic Research and Technology (R&T). No funds are requested for the PATH program in fiscal year 2002.

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2002 appropriation request of \$43 million is the same as the fiscal year 2001 level. The fiscal year 2002 obligation level is \$12 million less than the fiscal year 2001 level due mainly to the elimination of the PATH program. Also, an amount of \$2 million of carryover funds was added to the fiscal year 2001 estimate. The decrease in the outlay estimate is due to the elimination of the PATH program along with the slightly lower obligation level planned in fiscal year 2002.

Funding for basic R&T (non-PATH) activities increased by \$8 million from fiscal year 2000 to fiscal year 2001, of which \$3 million was earmarked by Congress for GPRA research. This increase will be devoted to higher costs for the series of housing market surveys, including the Congressionally mandated American Housing Survey; additional funding for university research and dissemination; completion of a major study of CPD's business loan programs; added funding for Geographical Information Systems (GIS) research; initiation of studies on HUD's homeownership subsidy programs; a new study of Section 8 voucher fund utilization; and a survey of the use of Section 8 vouchers by persons with disabilities.

Not all of these increases in fiscal year 2001 will continue into fiscal year 2002, it being the nature of the R&T program that many projects are completed in 1 year, allowing new projects to be started the following year. The categories of research that will be emphasized in fiscal year 2002, either by continuing fiscal year 2001 activities or through new areas of inquiry are summarized below. Because: (1) housing market surveys will again increase and continue to account for approximately one-half of the research budget; (2) GPRA research will continue at

Research and Technology

past levels; and (3) other fixed costs and Congressional requirements, the ability to start other new research projects in fiscal year 2002 within level overall funding at \$43 million will be limited.

PROGRAM DESCRIPTION AND ACTIVITY

Summary

The mission of the Office of Policy Development and Research (PD&R) is to provide reliable facts and analysis to inform the policy decisions of HUD, Congress, and State and local governments. R&T funds enable PD&R to fulfill this mission by maintaining and expanding information on housing needs and market conditions, evaluating current HUD programs and proposed policy changes, and conducting research on a wide range of housing and community and economic development issues, including advances in housing technology.

During fiscal year 2002, PD&R will conduct or initiate work in a number of key policy areas, including the following:

- **Low-Income Homeownership Initiatives.** PD&R research indicates that further increases in the homeownership rate are likely to be possible only by increasing homeownership among low-income and minority households. PD&R plans to conduct a number of research projects in this area, including research to determine what steps would promote the more effective use of Section 8 vouchers for homeownership.
- **Section 8 Utilization and Success Rates.** PD&R will continue its efforts to identify ways to improve the effectiveness of Section 8 vouchers. A study now underway will quantify the extent to which families with vouchers are able to use them to rent housing in different markets and to better understand voucher success rates. During fiscal year 2002, PD&R will examine the reasons for less than full utilization of Section 8 funds by certain categories of housing agencies.
- **Growth Management.** PD&R plans to expand its research into the important area of growth management. Of particular interest is research into the effects of existing and alternative mechanisms for financing development and public infrastructure costs.
- **Geographical Information Systems (GIS).** Closely related to PD&R's work on growth management issues, PD&R will continue its research on GIS and data collection systems with the aim of fostering the development of local GIS systems that can facilitate local and regional planning and increase the effectiveness of citizen participation in the planning process.
- **Faith-Based and Non-Profit Organizations.** Building on prior PD&R studies of the capacity of non-profits and the role of faith-based organizations in providing affordable housing, PD&R will examine what steps are needed to enhance the capacity of faith-based and other non-profit organizations to engage in housing and community development activities.
- **Government Performance and Results Act (GPRA).** Effective GPRA implementation requires new research to develop performance measures and goals that directly measure the effects of HUD's programs. PD&R will continue its extensive efforts in this area.
- **Housing Finance, FHA, and the GSEs.** PD&R will continue to expand its analysis of housing finance, FHA, and GSE (Fannie Mae and Freddie Mac) issues, examining topics such as: the impediments, practical remedies, and ultimate potential for increased low-income and minority homeownership; the role that FHA and the GSEs play in affordable lending; the role of credit history in mortgage defaults; the potential for mortgage scoring and risk-based pricing in FHA; and evaluation of FHA programs such as loss mitigation.
- **Building Technologies.** PD&R will undertake research to explore new cost-saving approaches for production, rehabilitation, and maintenance of housing that enhance affordability and to identify regulatory barriers that contribute to the high cost of housing construction and housing rehabilitation.

The above "summary" highlights the key topical areas of PD&R's research program for fiscal year 2002. This section complements the summary by providing a brief description of each of the main subjects of PD&R's ongoing research and analytical work. In order to fulfill the statutory obligations and responsibilities of PD&R and the Assistant Secretary for Policy Development and Research, PD&R engages in a wide variety of activities ranging from basic research and program evaluations and funding major ongoing housing market surveys to oversight of the GSEs Fannie Mae and Freddie Mac.

1. Legislative Authority. Title V of the Housing and Urban Development Act of 1970, as amended, authorizes and directs the Secretary to undertake programs of research, studies, testing and demonstrations relating to the missions and programs of the Department. Work under this authority is a principal source for Departmental program and policy reforms. In order to ensure

Research and Technology

effective use of the results of these activities, the Secretary is authorized to disseminate significant reports, data, and information to Departments and agencies of Federal, State and local governments, to industry, and to the general public.

2. Policy Development and Research. The Assistant Secretary for Policy Development and Research is responsible for the development, planning, and execution of HUD research and demonstration programs; for assisting in the formulation of Department policy; and for disseminating HUD research results. In addition, the PD&R organization has principal responsibility for providing economic and policy analysis, and staff assistance to the Secretary in determining national housing and community development goals, program priorities, and objectives.

3. Goals of the Research Program. PD&R's goal is to provide reliable and objective data and analysis to inform policy decisions--today and in the future. PD&R plays a leadership role in the Department's strategic planning work and provides both current and multiyear perspectives on program policies and performance

The following table shows the obligation level for each of the 3 fiscal years followed with the description of the major ongoing research and analysis work:

| | ACTUAL 2000 | BUDGET ESTIMATE 2001 | CURRENT ESTIMATE 2001 | ESTIMATE 2002 | INCREASE + DECREASE - 2002 vs 2001 |
|---|----------------|----------------------------|-----------------------------|------------------|--|
| (Dollars in Thousands) | | | | | |
| I. <u>Program Evaluation, Monitoring, & Performance</u> . . . | \$5,080 | \$15,094 | \$8,200 | \$8,200 | ... |
| II. <u>Research and Technology:</u> | | | | | |
| A. <u>Housing Programs</u> | 3,120 | 2,970 | 3,300 | 2,700 | -\$600 |
| B. <u>Safety and Standards</u> | 1,362 | 1,502 | 1,600 | 2,010 | +410 |
| C. <u>Housing Markets</u> | 19,572 | 23,322 | 23,925 | 24,100 | +175 |
| D. <u>Fair Housing</u> | 700 | 814 | 1,000 | 825 | -175 |
| E. <u>Local Government Management, Community and Urban Development</u> | 2,697 | 3,023 | 3,500 | 2,800 | -700 |
| F. <u>Research Support</u> | 2,643 | 2,875 | 3,293 | 2,869 | -424 |
| III. <u>PATH</u> | 9,950 | 12,000 | 10,043 | ... | -10,043 |
| IV. <u>International Activities</u> | 9,997 | ... | ... | ... | ... |
| V. <u>Commission on Affordable Housing and Health Care Facility Needs</u> | ... | 500 | 999 | ... | -999 |
| Total <u>a/</u> | 55,121 | 62,100 | 55,860 | 43,504 | -12,356 |

a/ Totals include estimated recoveries.

I. Program Evaluation, Monitoring, & Performance

The program evaluation and monitoring function has five major objectives:

- to monitor existing programs more effectively by ascertaining whether they are reaching the intended target populations, whether the programs are being delivered in an efficient manner, and whether the program's costs are in balance with their benefits;
- to build performance measurement, monitoring and evaluation criteria and their reporting systems, into new programs before programs are implemented;
- to augment and improve existing management information systems for monitoring and evaluation purposes by examining those data systems for quality, information coverage, and policy relevance;
- to perform timely and periodic evaluation of all programs to ascertain their impact, efficiency, and effectiveness; and,

- to bring about demonstrated improvements in the design, implementation, and management of HUD programs.

The activities in this category include research and development to improve HUD's performance management system. GPRA requires agencies to use program evaluations to develop strategic goals and performance indicators. HUD is required to report annually to Congress on achievements relative to the performance goals in its Annual Performance Plans. A performance report that is meaningful and that provides program guidance must include analysis of the relative influence of HUD programs and of external factors, such as economic and demographic trends.

II. Research and Technology

A. HOUSING PROGRAMS

The purpose of this research is to identify promising strategies for increasing the efficiency and effectiveness of Federal housing programs for low-income families. Major research areas include the future of the multifamily assisted rental stock, improving the effectiveness of tenant-based housing assistance, providing for elderly housing and studies of homelessness prevention and transition to permanent housing. In addition, work continues on the multiyear HOPE VI, Moving to Opportunity (MTO), Bridges to Work, Welfare-to-Work Vouchers and the Jobs Plus evaluations.

In addition to conducting research and policy analysis, PD&R carries out many responsibilities essential to the proper functioning of the Department's housing programs and fulfillment of its mission. These include calculating the key parameters used in housing programs such as income limits, overseeing the field economists who review the market for multifamily housing projects proposed for FHA insurance, conducting major periodic surveys of housing markets and the housing stock, and analytical and policy support for HUD's program oversight of the Fannie Mae and Freddie Mac.

In fiscal year 2002, the research program will focus on how local housing strategies are crafted and implemented, using the HOME program and the Low Income Housing Tax Credit. Also, a wide range of studies will be undertaken related to FHA programs and the Department's regulation of Fannie Mae and Freddie Mac.

B. SAFETY AND STANDARDS/BUILDING TECHNOLOGIES

The principal goal of this research is to aid in providing safe and sound housing at an affordable cost. Research on building codes and standards, environmental hazards, manufactured housing, removal of regulatory barriers, and simplification of building regulations are all covered under this category, topics of broad relevance to the goal of making housing more affordable and livable.

In fiscal year 2002, work will continue on manufactured housing research with particular attention to the development of improved installation technologies and methods for disaster resistance. Research will also continue on new materials for single family housing including the deconstruction of older inner city buildings as a source for building materials. In Fiscal Year 2002, PD&R will place particular emphasis on research to develop new technologies for regulatory tools and regulatory streamlining that can encourage cost-effective rehabilitation, and codes and statutes to support sustainable growth.

PD&R will also provide research support to further the evolution of model State zoning codes, and model subdivision ordinances for use by State and local governments.

C. HOUSING MARKETS

Given the continuing changes in housing and housing finance markets, it is essential for policy makers to keep abreast of institutional and economic changes and understand their import for financial risk, credit, affordability of rental and owner-occupied housing, residential construction and home purchases. By sponsoring major housing market surveys and conducting research and analysis on housing market finance issues, PD&R provides this essential information to a wide range of policy makers and stakeholders.

Surveys

More than half of the budget for research and technology is dedicated to funding major ongoing housing market surveys including the American Housing Survey, the Residential Finance Survey, the Survey of New Home Sales and Completions, the Survey of Market Absorption, and the Survey of New Manufactured Homes Placements. These studies are described below:

- The American Housing Survey (AHS), a Congressionally mandated survey, is the Nation's primary source of information on the housing stock and housing conditions. Since 1973, the Census Bureau has surveyed a nationally representative sample of approximately 60,000 housing units in odd-number years to gather information on the condition of those units and the characteristics of their residents. In even-number years, smaller, longitudinal samples are surveyed to provide similar data for each of 47

large metropolitan areas at 4- or 6-year intervals. Although conducted by the Census Bureau, these surveys are sponsored, funded and directed by PD&R. HUD, other government agencies, private entities, and researchers use this information to assess the housing needs of the country, evaluate the performance of national housing policy, and study the dynamics of the housing market.

- In fiscal year 2002, PD&R will continue funding for the Residential Finance Survey (RFS) which is a supplement to the decennial census that provides detailed information on the financing of non-farm residential properties, both owner-occupied and rental properties. Without HUD funding, this valuable survey could not have been conducted in connection with the 2000 Census.
- The Survey of New Home Sales and Housing Completions provides monthly and annual data on sales, completions, and prices of new homes. This survey provides the data for two leading national economic indicators.
- The Survey of Market Absorption of New Multifamily Units provides quarterly national data on how quickly new multifamily units are rented, by rent level and number of bedrooms.
- The Survey of New Manufactured (Mobile) Housing Placements compiles data on the number of new manufactured housing units sold or leased and placed on site by manufactured housing dealers for residential use.

Research

PD&R's housing finance research will: (1) furnish sound analysis of trends and financial risks in the mortgage capital markets, (2) assess the impact of legislative proposals relating to housing finance, (3) conduct special studies of FHA programs and alternative approaches to improve primary and secondary mortgage markets, (4) analyze issues related to mortgage default and mortgage credit scoring, and (5) assess FHA's new mortgage scorecard technology that is used to measure the relative credit risk of FHA applicants in the automated underwriting of FHA mortgages. Research will also be conducted to improve the understanding of FHA's impact on the single family and multifamily housing markets and to examine the nature of affordable lending in the single family market.

PD&R also provides research and policy analysis support to the Secretary in connection with his role in regulating the Government-Sponsored Enterprises (GSEs)--Fannie Mae and Freddie Mac. In fiscal year 2002, PD&R will continue to monitor GSE performance under the income-based and geographical housing goals and issue reports on the GSEs' role in affordable lending nationwide. Research will be conducted on implications of current market developments on the GSEs, the secondary mortgage market, and the availability of mortgage finance for lower-income borrowers and underserved markets. Particular attention will be given to the evolution of subprime mortgage lending and markets and the increased use of risk-based pricing throughout the mortgage market. Research and policy analysis will also be performed to support the Department's administration of fair lending requirements that bear on the GSEs.

D. FAIR HOUSING

In fiscal year 2002, PD&R will continue to conduct research on a range of fair housing issues, such as the housing accessibility of disabled persons. PD&R will also study the impact of the changes in Section 8 and public housing programs on patterns of segregation and desegregation and continue its support of the evaluation of the Moving to Opportunity (MTO) voucher demonstration.

E. LOCAL GOVERNMENT MANAGEMENT, COMMUNITY AND URBAN DEVELOPMENT

Under this category of research PD&R evaluates the Department's efforts to create jobs and economic opportunities and improve urban economies through economic development and revitalization activities. In addition to ongoing analyses of Empowerment Zones and Enterprise Communities, studies continue on Section 108, and other current and past economic development programs.

PD&R will continue to collect and make available basic data on the economic and social condition of cities and to update the State of the Cities Data Base. Research for fiscal year 2002 will include an analysis of the fiscal disparities between central cities and suburbs and an examination of the spatial patterns of economic development. Together these projects will provide insight into the phenomenon of urban sprawl and produce information relevant to regional cooperation among local governments. Further data collection and analysis projects include crime and employment data for metropolitan areas and an initial analysis of the decennial census of population.

F. RESEARCH SUPPORT

This part of the PD&R budget is critical to: (1) ensure that PD&R's research results are widely disseminated so that they are used by policy makers and practitioners, and (2) provide other support to PD&R, including the funding of short-term, high priority policy analyses and research. Through its research support PD&R continually strives to incorporate state-of-the-art practices in the dissemination of best practices and other useful knowledge.

III. Partnership for Advancing Technology in Housing (PATH)

The fiscal year 2002 request does not include any new funds for PATH.

IV. International Activities

As of September 30, 2000, HUD had obligated all of the \$10 million transfer of funds from U.S. AID for the Central American/Caribbean Hurricane Reconstruction program. The Department is now implementing technical assistance projects in six countries in Central America and the Caribbean to support long-term reconstruction in housing and community development areas damaged by the hurricanes. The HUD program will conclude by December 31, 2001.

In fiscal year 2002, PD&R's Office of International Affairs will continue a small program of cooperative research studies to support the international exchange of data and information on housing and urban development topics.

V. Commission on Affordable Housing and Health Care Facility Needs

Funds carried over from fiscal year 2000 in the amount of \$500,000 were included in fiscal year 2001 for the Commission on Affordable Housing and Health Care Facility Needs in the 21st Century as mandated in the 2000 Appropriations Act. An additional \$500,000 is included for the Commission in fiscal year 2001, as mandated in the fiscal year 2001 Appropriations Act.

Advisory and Assistance Services. Advisory and assistance services are included within the activities and funding reported under the eight research categories (I, all of II, and III). As defined in OMB Circular A-120, these services include individual experts and consultants; studies, analyses, and evaluations; and management and professional support services. Estimates of advisory and assistance services are designed to provide PD&R with sufficient flexibility to respond to specific, short-term Departmental requests for policy relevant information where those requests cannot be predicted accurately in advance as to the type of research methodology required.

Research and Technology

PERFORMANCE RESULTS: Given PD&R's broad role in evaluating and informing policy decisions in HUD's programs, the budget request for research and technology supports virtually all of HUD's performance indicators. Two indicators with a particularly direct connection to PD&R are Outcome Indicator 5.2.1: Policy Development and Research work products are rated more highly for usefulness, ease of uses, reliability objectivity and influence, and Outcome Indicator 5.2.a: HUD research products are used more widely, as measured by the number of citations in the policy literature.

STRATEGIC GOALS AND OBJECTIVES (\$ AND FTE) AND RESULTS

PD&R research supports Strategic Goal 5: Ensure Public Trust in HUD, by supporting program evaluation, demonstrations, and data analysis for all of HUD's strategic goals and objectives. As part of this, PD&R is responsible for Strategic Objective 5.2: HUD leads housing and urban research and policy development nationwide. The two performance indicators under this Objective focus on the tangible products of PD&R efforts, including data sets, evaluation reports, policy journals and documents that appear in print and on the Internet. PD&R has contracted for a survey and evaluation of its own research products which will rate performance under these two objectives. Customers are being surveyed to determine whether they find PD&R research products relevant, useful and well-prepared. Results and analysis will be available in May of 2001.

SELECTED PERFORMANCE MEASURES

| | ACTUAL 2000 | ENACTED 2001 | ESTIMATE 2002 |
|---|----------------|--------------------|------------------|
| Strategic Goal 5: Ensure public trust in HUD. | | | |
| Discretionary BA (Dollars in Thousands) | 45,000 | 53,382 | 43,404 |
| FTE | 155 | 164 | 174 |
| Strategic Objective 5.2: HUD leads housing and urban research and policy development nationwide. | | | |
| Outcome Indicator 5.2.1: PD&R work products are rated more highly for usefulness, ease of use, reliability, objectivity, and influence. | Not Available | Determine Baseline | To Be Determined |
| Output Indicator 5.2.a: HUD research products are used more widely, as measured by the number of citations in the policy literature. | Not Available | Determine Baseline | To Be Determined |