

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

POLICY DEVELOPMENT AND RESEARCH

RESEARCH AND TECHNOLOGY

PROGRAM HIGHLIGHTS

	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003	INCREASE + DECREASE - 2003 vs 2002
	(Dollars in Thousands)			
Obligations - Core R&T	\$44,028	\$40,384	\$47,100	+\$6,716
Obligations - PATH	\$8,709	\$10,084	...	-\$10,084
Total	\$52,737	\$50,468	\$47,100	-\$3,368
<u>Budget Authority</u>				
<u>(Appropriations):</u>				
Enacted or Proposed - Core R&T .	\$43,500	\$41,500	\$47,000	+\$5,500
Transfers to Commissions	[-\$499]	[-\$2,500]	[...]	[\$2,500]
Rescission	-\$96	...	...	...
Subtotal Core R&T	[\$42,904]	[\$39,000]	[\$47,000]	[\$8,000]
Enacted or Proposed - PATH	\$10,000	\$8,750	...	-\$8,750
Rescission	-\$22	...	...	...
Subtotal	\$53,382	\$50,250	\$47,000	-\$3,250
Outlays - Core R&T	\$55,056	\$52,900	\$45,146	-\$7,754
Outlays - PATH	\$8,644	\$7,100	\$5,854	-\$1,246
Total Outlays	\$63,700	\$60,000	\$51,000	-\$9,000

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

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2003 Budget proposes an appropriation of \$47 million for research, studies, technology and policy analysis administered by the Assistant Secretary for Policy Development and Research (PD&R) under the Research and Technology account (R&T).

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2003 appropriation request for core research & technology is \$4 million more than the fiscal year 2001 actual amount. (For purposes of this comparison, the fiscal year 2001 amount has been reduced by \$499,000, which is the amount transferred to the Commission on Affordable Housing & Health Care Facility Needs.) A little more than half of the increase is attributable to increased costs for housing market surveys and research dissemination and the costs of a new Congressionally mandated Clearinghouse on Regulatory Barriers to Affordable Housing. The balance will be used to expand funding for program evaluations and to analyze the impact of newly available census data on HUD programs.

Funding for core research & technology dropped significantly between 2001 and 2002. In addition to a \$2 million reduction in budget authority for core research & technology, the amount of set-asides for Congressional commissions increased from \$500,000 to \$2.5 million. As a result, the net amount available for core research & technology in fiscal year 2002 was \$39 million--\$4 million less than in 2001 and \$8 million less than requested in fiscal year 2003. (The \$5.5 million difference between fiscal years 2002 and 2003 shown in the above table reflects the combined amounts for core research &

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technology and commissions.) The fiscal year 2003 budget request would restore the \$4 million cut in fiscal year 2002 and provide an additional \$4 million to cover the costs noted above.

As in the fiscal year 2002 Budget request, no funds are requested for the Partnership for Advancing Technology in Housing (PATH) program. The decrease in the outlay estimate between 2002 and 2003 is largely due to the elimination of the PATH program in fiscal year 2003, the spendout in fiscal year 2002 of funds from the prior U.S. AID transfer, and to a lesser extent, previously reduced appropriations for core R&T and PATH.

PROGRAM DESCRIPTION

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, State and local governments and other HUD partners. 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.

Summary

During fiscal year 2003, PD&R will initiate or continue work in a number of key areas. Highlights include the following:

- **Analysis of 2000 Census data.** Most decennial census data pertinent to HUD programs will become available for the first time in fiscal year 2003. Beginning in 2003 and continuing into 2004, PD&R will analyze these data to determine their implications for HUD programs. Such analyses will enable HUD to, for example:

Understand the impact of new census data on formulas for distributing HUD funding and examine whether changes to these formulas are necessary;

Recalibrate Fair Market rents and income limits for the assisted housing programs;

Revise the areas classified as "underserved" for the purposes of setting new affordable housing goals for Fannie Mae and Freddie Mac.

Examine in detail the extent to which progress occurred in the 1990s in addressing important housing goals, such as expanding homeownership and reducing "worst case needs" and housing segregation patterns.

- **Evaluations of HUD Homeownership Programs.** To better understand the impact of HUD homeownership programs and determine how they can be improved, PD&R will initiate or continue work on a number of program evaluations, including evaluations of Section 8 homeownership, homeownership activity under HOME, FHA single-family insurance, and programs that concentrate homeownership investments in particular neighborhoods.
- **Other HUD Program Evaluations.** In fiscal year 2003, PD&R plans to expand significantly its HUD program evaluation activity, in addition to homeownership program evaluations. Based on input from the Secretary and program offices within HUD, PD&R is developing a plan for its program evaluation activity to ensure that it advances key policy objectives and leads to regular periodic evaluations of major HUD programs.

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- **Expanding Homeownership Among Low-Income and Minority Households.** Based on the results of a project initiated in 2001 to survey the impediments, practical remedies, and ultimate potential for increased low-income and minority homeownership, PD&R will choose several promising approaches to expanding homeownership about which to conduct more in-depth research and analysis in 2003. Topics such as the costs and benefits of different tax incentives to boost homeownership among low-income families will be examined.
- **Strengthening the Section 8 Voucher Program.** PD&R will continue its efforts to identify ways to improve the effectiveness of Section 8 vouchers. Research projects now underway are examining the reasons for low utilization rates at certain PHAs and steps that other PHAs have taken to boost voucher success rates. During fiscal year 2003, PD&R will examine the Section 8 administrative fee formula to determine whether changes are needed both to ensure the optimal and efficient distribution of funds and to provide incentives for achieving key programmatic outcomes.
- **Performance Management (GPRA).** PD&R will continue its research program to improve HUD's ability to measure the direct effects of HUD's programs.
- **Housing Finance, FHA, and the GSEs.** PD&R will continue to conduct analyses of housing finance, FHA, and GSE (Fannie Mae and Freddie Mac) issues, examining topics such as the role that FHA and the GSEs play in affordable and minority lending; the role of credit history in mortgage defaults; loss mitigation and alternatives to mortgage default; and the potential for mortgage scoring and risk-based pricing in FHA.
- **Energy Efficiency and Building Technology.** PD&R will undertake research to explore new approaches for production, rehabilitation, and maintenance of housing that enhance energy efficiency and affordability; PD&R will also continue work to identify regulatory barriers that contribute to the high cost of housing construction and rehabilitation.
- **Growth Management.** PD&R plans to conduct research in the area of growth management. Of particular interest is research into the relationship of growth management and housing affordability, and the effects of different mechanisms for financing development and public infrastructure costs.

Description

The above "summary" highlights the key topical areas of PD&R's research program for fiscal year 2003. This section complements the summary by providing further description of each of the main categories of PD&R's ongoing research and analytical work.

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 approved demonstrations relating to the missions and programs of the Department. Work under this authority is a principal source for Departmental program and policy changes. In order to ensure 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, to the general public and to Congress.

Policy Development and Research. The Assistant Secretary for PD&R is responsible for the development, planning, and execution of HUD research, evaluation and approved 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

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Secretary in determining national housing and community development goals, program priorities, and objectives; for funding major ongoing housing market surveys; and for supporting the Secretary's role in overseeing the GSEs (Fannie Mae and Freddie Mac).

Finally, in light of its expertise in the field of economics, PD&R performs a number of functions that help to support the administration of the Department's housing programs. These include calculating the key parameters used in housing programs such as income limits and Fair Market Rents and overseeing the field economists who review the market for multifamily housing projects applying for FHA insurance. While PD&R administers fair market rent and customer surveys, the funding for these programmatic functions has been provided through the Public Housing Capital Fund starting in fiscal year 2001 and continuing through fiscal year 2003.

Classification of Activities. PD&R activities may be classified as either fixed or variable:

- Fixed Activities. PD&R expects to commit \$28.2 million for fixed activities in fiscal year 2003. The largest of these is the Congressionally mandated American Housing Survey, which provides policymakers and researchers with basic information on the U.S. housing market. The American Housing Survey costs are estimated to be \$18.8 million in fiscal year 2003. Other fixed expenses include the Survey of New Home Sales and Housing Completions, the Residential Finance Survey, the Survey of New Manufactured Housing Placements, and the Survey of Market Absorption of New Multifamily Units, as well as research dissemination and support.
- Variable Activities. The remaining \$18.9 million will be committed to program evaluations and other research on housing and community and economic development issues.

The following table shows the obligation level for more specific categories of fixed and variable activities in fiscal years 2001, 2002 and 2003. These categories have been revised from prior years to provide a clearer explanation of PD&R activities.

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	ACTUAL	BUDGET	CURRENT		INCREASE +
	2001	ESTIMATE	ESTIMATE	ESTIMATE	DECREASE -
	<u>2001</u>	<u>2002</u>	<u>2002</u>	<u>2003</u>	<u>2003 v 2002</u>
(Dollars in Thousands)					
I. Housing Market					
Surveys	\$22,112	\$22,900	\$23,000	\$23,600	+\$600
Research					
II. Dissemination	3,829	4,400	4,400	4,600	+200
Subtotal Fixed					
Activities	\$25,941	\$27,300	27400	28200	+800
III. Program Evaluations	4,610	6,100	4,981	7,500	+2,519
Housing Finance					
IV. Studies	1,941	1,300	1,060	1,750	+690
V. University Research	2,267	1,500	550	1,600	+1050
Urban Data Systems					
VI. Research	987	1,500	1,365	1,900	+535
Approved					
VII. Demonstrations	3,507	1,700	1,320	1,000	-320
Housing Technology					
VIII and Regulatory					
Studies	2,569	2,000	1,653	2,250	+597
Other Housing and					
IX. Urban Research	2,206	2,104	2,055	2,900	+845
Subtotal R&T					
Variable	\$18,087	\$16,204	\$12,984	\$18,900	+5916
Transfer to the					
Commission on					
Affordable Housing &					
Health Care Facility					
X. Needs	[499]	...	[1,000]	...	-1,000
Transfer to the					
Millennial Housing					
XI. Commission	...	...	[1,500]	...	-1,500
X. PATH	8,709	...	10,084	...	-10,804
Grand Total R&T a/	\$52,737	\$43,504	\$50,468	\$47,100	-\$5,868
Totals include estimated					
a/recoveries.					

The following is a description of PD&R activities under each of the categories listed above:

FIXED ACTIVITIES:

I. Housing Market Surveys

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.

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Roughly 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 2003, 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.
- 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.

II. Research Dissemination and Support Services

To ensure optimal use of the research and analysis conducted by PD&R, it is essential that these materials be made available to researchers and policy analysts. This funding category supports activities necessary for disseminating and supporting PD&R research. PD&R's research information clearinghouse, HUD USER, and PD&R's Web site www.huduser.org will continue to serve an impressive number of researchers, including policy analysts at all levels of government, the private sector, nonprofit housing advocates, and educators. During the period January 2001-December 2001, over 3.2 million files were downloaded by these users and during the same period, the clearinghouse distributed over 189,000 copies of PD&R products. Through its support services contract, PD&R will continue to have access to technical reviewers for reports and papers; writers; editors; conference planners; and graphic designers. Experts in these areas will assist PD&R staff in the development and marketing of written products; organizing and implementing conferences, workshops and meetings; designing and staffing a PD&R exhibit at national conferences; and providing dissemination and distribution support for PD&R publications.

This funding category also includes two clearinghouses required by legislation. First, the American Homeownership and Economic Opportunity Act of 2000 required PD&R to establish a Regulatory Barriers Clearinghouse to serve as a national repository to receive, collect, process, assemble, and disseminate information to eliminate barriers to affordable housing. Second, the legislation creating Community Outreach Partnership Centers directed HUD to establish a clearinghouse on university/community partnerships to document and disseminate information about such grant programs that PD&R administers. As the number of these grant

programs has grown, so too has the role of the clearinghouse in promoting the creation of university/community partnerships.

VARIABLE ACTIVITIES:

III. Program Evaluations

In fiscal year 2003, PD&R plans to expand significantly its program evaluation activity. Based on input from the Secretary and program offices within HUD, PD&R is developing a plan for its program evaluation activity to ensure that it advances key policy objectives and leads to regular periodic evaluations of major HUD programs.

Among program evaluations now underway are: homeownership activity under HOME, Section 8 homeownership, Utilization of Section 8 Vouchers, FHA ARMs, Use of the Voucher Program by Persons with Disabilities, the HOPE VI program, the Family Self-Sufficiency Program, the Welfare-to-Work Voucher program, the Continuum of Care system, the Impact of CDBG on Community Redevelopment, economic development loans made with HUD funds, and Reduced Down Payments for Teachers and Uniformed Municipal Employees.

IV. Housing Finance Studies

While PD&R has a broad research and evaluation agenda in the housing finance area, many PD&R studies focus on the role of FHA and the GSEs (Fannie Mae and Freddie Mac) in expanding affordable lending and programs to increase homeownership opportunities for low-income and minority families.

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 2003, PD&R's research program will emphasize analyses of 2000 census data which can support HUD's review of the GSEs' affordable housing goals, and particularly the goal related to GSE activity in underserved housing market areas. The housing goals are scheduled to be evaluated and revised as necessary before the end of 2003. 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. Continued 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 oversight of GSE fair lending requirements.

V. University Research

PD&R seeks to enhance HUD's overall capacity and knowledge base by encouraging more scholars to focus on research questions relevant to HUD goals. To help build broader attention to policy-relevant research on housing, urban development, and economic issues, PD&R offers incentives to promising researchers at a critical point in the preparation of faculty and researchers --

during the doctoral process and early faculty years. The Early Doctoral Student Research Grant and the Doctoral Dissertation Research Grant enable top doctoral students or recent degree holders to cultivate their research skills through the preparation of papers and dissertations, and the opportunity to present and publish their work. The Urban Scholars Fellowship is a postdoctoral award for 15 months of research support to faculty who are less than 5 years into their academic careers.

VI. Urban Data Systems Research

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 Database. Research for fiscal year 2003 will include incorporation into the database of standard and special tabulations from the 2000 census, an analysis of the fiscal disparities between central cities and suburbs, and an examination of the spatial patterns of housing and 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 analyses of crime data, business establishment and jobs data, and current labor force statistics for metropolitan areas and central cities.

This category also includes research on the application of Geographic Information Systems (GIS) technology to the field of housing and community and economic development. Among other activities, PD&R will provide researchers with spatially-enabled datasets and help to develop tools to facilitate researchers' use of GIS technology in analyzing housing and community and economic development issues. PD&R will also investigate the potential of GIS activity to facilitate regional planning and increase the effectiveness of citizen participation in the planning process.

VII. Approved Demonstrations

In fiscal year 2003, PD&R will continue to fund research related to the Congressionally approved demonstration, the Jobs Plus Community Revitalization Initiative for Public Housing Families. The goal of the Jobs-Plus is to substantially increase the employment rates of residents living in public housing developments through three broadly defined elements: (1) work incentives; (2) best practices in preparing residents for sustained employment and in linking residents with jobs; and (3) enhanced community support for work. Jobs-Plus is a 5-year demonstration program, which concludes in June 2003. Public housing authorities and collaborative private partners are implementing the demonstration and the Manpower Demonstration Research Corporation is evaluating the various outcomes.

VIII. Housing Technology and Regulatory Studies

This research aims to improve the safety, soundness and energy efficiency of the Nation's housing stock--especially HUD-assisted and regulated housing--while maintaining affordability. A major focus of this research category in fiscal year 2003 will be research on technologies and building methods that can help make housing more energy-efficient as well as strategies for promoting energy conservation in public and assisted housing. Other areas of work include research on building codes, HUD technical standards and support for consensus standards to assure safe, affordable housing; accessibility studies; environmental hazards; manufactured housing; removal of regulatory barriers and streamlining the regulatory system.

In fiscal year 2003, expanded work will continue on research to improve manufactured housing standards, particularly research in support of the HUD Office of Manufactured Housing's efforts to develop Congressionally required model installation standards. Research will continue to identify and recommend approaches to reducing barriers to infill housing and reuse of urban land. These

include reduction of code barriers to rehab and studies on land assemblage. Research will also continue on understanding the structural requirements and engineering principles needed to assure that the safety and disaster resistance of single-family homes can be improved without sacrificing housing affordability.

IX. Other Housing and Urban Research

This category covers a range of research on different housing and community and economic development issues. Among other topics, PD&R will examine ways to enhance the capacity of faith-based and community organizations to perform housing and community development, and the nature and severity of housing problems among different populations and in different geographic areas.

Other research in this category will examine the effects of growth management policies on the availability and distribution of affordable housing and study existing and alternative mechanisms for financing development and public infrastructure costs.

In fiscal year 2003, PD&R's Office of International Affairs will continue a small program of research studies to support the international exchange of data and information on housing and urban development topics.

U.S. AID TRANSFER. As of September 30, 2000, HUD obligated all of the \$10 million transfer of funds from U.S. AID for the Central American/Caribbean Hurricane Reconstruction program. The Department implemented 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 concluded on December 31, 2001.

PERFORMANCE RESULTS. PD&R has a broad support role in HUD, evaluating the Department's programs and informing policy decisions to make the programs more effective. The budget request for research and technology has a core purpose of improving performance for all strategic goals. One aspect of this support is the provision of performance data and analysis for a major share of HUD's performance indicators; this is one of many uses of the housing market surveys funded out of this account. Another aspect is PD&R's evaluation of programs to shed light on performance issues and market factors that are too complex to encompass with annual performance measures. PD&R's support role is reflected in the Department's new framework of strategic goals and objectives. Since PD&R research supports all of the Department's strategic objectives, the framework no longer contains a separate strategic objective focused solely on research. The aspect of PD&R's work that involves providing quality research products to outside researchers and policymakers is captured with the research-related performance indicator [6.2 Improve accountability, service delivery and customer service of HUD and our partners], "At least 80 percent of key users rate PD&R work as valuable."

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

During fiscal year 2001, PD&R completed a survey and evaluation of its own research products. These products include data sets, evaluation reports, policy journals and documents that appear in print and on the Internet. Customers were surveyed to determine whether they found PD&R research products relevant, useful and well-prepared. HUD research was found to be rated highly and cited frequently in the academic literature, although a need for greater methodological rigor was noted. PD&R will use the findings to strengthen its efforts, and will reassess its research products and program every three years through a similar survey (next survey in fiscal year 2004). In intervening years PD&R will continue to monitor user opinions through mail surveys and other user feedback on its research.

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SELECTED PERFORMANCE MEASURES

NOTE: Targets are preliminary and may be revised with the submission of a full APP document.

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Goal 6: Embrace high standards of ethics, management and accountability.			
Discretionary BA (Dollars in Thousands)	\$52,882	\$47,750	\$47,000
FTE			
Headquarters	112	115	115
Field	40	37	37
Subtotal	152	152	152
Strategic Objective 6.2: Improve accountability, service delivery and customer service of HUD and our partners.			
Indicator: At least 80 percent of key users (including researchers, State and local governments, and private industry) rate PD&R's work products as valuable.	81%	NA	NA (next survey in 2004)
Indicator: PD&R will produce and facilitate the dissemination of more than 40 publications through its distribution clearinghouse, HUD USER.	36	40	40
Indicator: More than 3.2 million downloadable files will be accessed from PD&R's website	3.2 million	3.2 million	3.2 million
FTE Total	152	152	152