

HUD TRANSFORMATION INITIATIVE FUND
2011 Summary Statement and Initiatives
(Dollars in Thousands)

TRANSFORMATION INITIATIVE FUND (excluding transfers)	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2009 Appropriation .....	...	...	...	...	...	...
2010 Appropriation/Request	\$20,000	...	...	\$20,000	20,000	\$10,000
2011 Request	<u>20,000</u>	...	...	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Program Improvements/Offsets .....	...	...	...	...	...	+10,000

Summary Statement

The Budget proposes a Departmentwide HUD Transformation Initiative (TI) Fund to be funded by a direct appropriation of \$20 million for the Combating Mortgage Fraud initiative, as well as transfers from program accounts of up to 1.0 percent at the Secretary's discretion (maximum transfers of \$456 million). HUD proposes to use these funds for four complementary purposes: Research, Evaluation and Performance Metrics; Program Demonstrations; Technical Assistance and Capacity Building; and next-generation Information Technology. Each of these transformation initiative categories would receive not less than 10 percent and not more than 50 percent of the aggregate funds. The TI Fund will help the Department be more responsive to shifting needs and new mandates, produce better quality data and reports, and use its budgetary resources more effectively and efficiently.

HUD requests authority to transfer funds from the following program accounts: Tenant-Based Rental Assistance, Public Housing Capital Fund, Public Housing Operating Fund, Choice Neighborhoods Initiative, Native American Housing Block Grants, Native Hawaiian Housing Block Grant, Indian Housing Loan Guarantee Fund Program, Housing Opportunities for Persons With AIDS, Community Development Fund, HOME Investment Partnerships Program, Capacity Building, Homeless Assistance Grants, Project-Based Rental Assistance, Housing for the Elderly, Housing for Persons with Disabilities, Housing Counseling Assistance, Payment to Manufactured Housing Fees Trust Fund, Mutual Mortgage Insurance Program Account, Lead Hazard Reduction, Rental Housing Assistance, and Fair Housing Activities. For each account, the maximum possible transfer is calculated based only on program or administrative funds; credit subsidy appropriations have been excluded from all transfer estimates.

TI funds are proposed as the primary funding source for two of these purposes: the Program Demonstration initiative and the Technical Assistance and Capacity Building initiative. Transformation funds for the other initiatives, in contrast, will supplement and build upon other appropriated and transferred funding designated for core purposes. Research, Evaluation, and Performance Metrics initiative funds will supplement data collection in the Research and Technology account. Information Technology initiative funds will complement "steady-state" system maintenance activities in the Working Capital Fund, with the expectation that transformation investments will result in long-term reductions in maintenance costs as antiquated systems are decommissioned.

In line with the Department's fiscal year 2010 appropriation, HUD requests a direct appropriation of \$20 million to the Transformation Initiative account for the purpose of combating mortgage fraud through activities otherwise eligible under the four activity areas outlined above. TI funding for this signature initiative will supplement program-specific efforts discussed separately under the heading "Combating Mortgage Fraud."

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In addition to the four continuing initiatives, the 2011 Budget creates a central pool of HUD salaries and expenses funding. The Budget requests authority for the Secretary to transfer a small amount – up to 1 percent – from each of HUD's salaries and expenses accounts to fund personnel-related expenses throughout the Department on an as-needed and as-available basis. The central fund would provide targeted, temporary infusions of resources to any of HUD's program offices.

HUD proposes to submit a detailed operating plan for the TI Fund to the Committees on Appropriations within 60 days of enactment and 15 days before obligating or expending the transferred funds.

Need for a Transformation Initiative

The national economy and social system supported by America's constitutional principles are the most dynamic in the world. This dynamism requires national institutions such as Federal agencies to be, if not nimble, at least adaptable and resilient. Two events in recent years clearly demonstrated this need. First, the devastation wrought by the Gulf Coast hurricanes of 2005 and the inadequate response by Federal, state and local governments contributed to losses that could have been greatly reduced. In contrast, adapting HUD programs to the unique needs of displaced families played a major role in the national recovery effort. Second, statutory constraints on the types of mortgage products that the Federal Housing Administration (FHA) could offer created an opportunity for dishonest lenders to accelerate subprime and predatory lending during the 2005-2007 period, and contributed to immeasurable and continuing losses still suffered by American families, communities, and investors today.

With these examples and others, HUD recognizes a pressing need for adaptability and change, involving both reformation and transformation. The Department's operations face serious challenges arising from internal resource and structural constraints, while the scope of housing and urban development problems facing the nation has broadened from concentrated areas of need. Traditional programs like public housing and rental vouchers and FHA mortgage insurance need to adapt to changing market conditions. HUD needs to become an innovative agency with the capacity to move beyond legacy programs, shaping new markets and methods in the production and preservation of affordable housing, greening the nation's housing stock and promoting sustainable growth in metropolitan America. This transformation should be based on sound evidence provided by rigorous research, program evaluations, and demonstrations of whether programmatic innovations actually work.

HUD's transformation is a multiyear effort that can only be achieved through the sustained commitment of flexible budgetary resources, the relentless focus of agency leadership, and full transparency and accountability to external stakeholders for the delivery of real results.

The sustained commitment of flexible budget resources is critical if HUD is going to fundamentally change the way it operates. HUD's needs in the areas of information technology (IT) modernization, research and evaluation, demonstrations, and technical assistance have long been neglected. The funding level of the fiscal year 2010 TI Fund has left the Department in the position of having to focus on a series of strategic, short-term investments that are narrower in scope than desired. By fully funding this year's request, HUD will be able to secure full-scope, multi-year funding for critical long-term projects in the IT, research and evaluation, and demonstration categories, as well as the necessary resources for the much needed expansion of efforts to increase grantee capacity. Full funding will also enable HUD to shift resources to unanticipated projects that arise over the course of the year in response to changing fiscal, operational, statutory, or regulatory conditions.

Benefits of the Transformation Initiative

The Transformation Initiative represents a comprehensive effort to deal with the broad range of persistent problems and unexploited opportunities that HUD faces. Recent progress in several major program areas, such as implementing asset management in public housing, demolishing obsolete and dangerous housing stock,

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and modernizing FHA programs, has created a significant opportunity to systematically re-examine the Department's efforts on serious on-going issues. Inadequate investment in research, evaluation and data collection have for too long limited HUD to directing a few, sometimes rigid, programs toward diverse, complex, and poorly understood urban problems. Public investments in program demonstrations during the 1970s resulted in the voucher program as a more cost-effective alternative to public housing. However, the next phase of transformative research has not yet been undertaken.

A central principle underlying the Transformation Initiative is the necessity of making policy and managerial decisions on the basis of documented evidence. Three of the four purposes that HUD proposes for transformation funding – research, demonstrations, and technology initiatives – are fundamentally about applying evidence-based principles. HUD expects that these components will fill critical gaps in collective understanding of both the causes of housing and urban development issues and the practical matters of how to effectively address them. More rigorous performance measurement and a Secretarial commitment to employing best practices for performance management will complete the loop.

A robust capability to deploy sound data for policymaking and program management must be accompanied by greater coordination with program partners. HUD can address none of its core mission areas alone. The Department must collaborate with other Federal agencies to address issues of mutual concern. At the same time, engaging state and local governments and private for-profit and non-profit partner organizations will be critical in providing a coordinated attack on the challenges we all face. The technical assistance funds of the Transformation Initiative, and the flexible use of those funds to span programmatic boundaries for more effective education, are key to making these partnerships effective.

Given the number and magnitude of the challenges faced, HUD's transformation will involve a multi-year commitment of resources, energy and relentless focus. HUD considers the requested 1.0 percent transfer of program funds for this critical initiative to be a justifiable, proportionate and responsible investment of program funds that will ultimately lead to a more efficient, effective, and impactful agency.

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Summary of Resources
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2009 Budget Authority</u>	<u>2008 Carryover Into 2009</u>	<u>2009 Total Resources</u>	<u>2009 Obligations</u>	<u>2010 Budget Authority/ Request</u>	<u>2009 Carryover Into 2010</u>	<u>2010 Total Resources</u>	<u>2011 Request</u>
Direct Appropriation	\$20,000	...	\$20,000	\$20,000
Transfers		
Maximum Program Transfers	[238,787]	...	[238,787]	[455,617]
Maximum Salaries and Expenses Transfers	[13,791]

Categories of Purposes

Research, Evaluation and Program Metrics

The foundation of HUD’s transformational strategy is to provide a predictable stream of funding for high quality research and evaluation that can inform sound policymaking. Allocating a small increment of program funds to the Research and Technology (R&T) account will enable HUD to subject programs continuously to rigorous evaluation. The Research, Evaluation, and Performance Metrics initiative will supplement R&T appropriations for the nation’s basic infrastructure of housing data such as the American Housing Survey as well as the Presidential Program Evaluation and the Research and Development initiatives. The more careful and scientific approach enabled by the Research, Evaluation, and Performance Metrics initiative will highlight for policymakers what works and what needs reform. Systemic research will enable HUD to monitor results and undertake timely modifications of programs and policies that fail to produce results. A component of this research and evaluation will be to develop the right set of metrics to track program performance between evaluations.

Congress established the Office of Policy Development and Research (PD&R) as HUD’s independent research wing in 1965. However, the National Academy of Sciences chronicled the dramatic decline in PD&R’s research funding from 1999 through 2007 in its 2008 report, “Rebuilding the Research Capacity at HUD.” The Report concluded, “In 2007, the total amount of funds obligated for non-PATH related external research was one-third of what it had been in 1999 (\$14.8 million compared with \$43.5 million). For a department that spends more than \$36 billion of taxpayer money each year on a variety of housing and community development programs, there is virtually no money available to the one quasi-independent office in the agency charged with evaluating how these program funds are spent, assessing their impact and researching ways to make programs more efficient and effective.”

Over the past decade or more, the lack of investment in research and evaluation at HUD contrasts sharply with its own history and the practice of other Federal agencies. During the 1970s, HUD funding for discretionary research was more than \$200 million annually (expressed in current dollars). Prior to the launching of the Transformation Initiative in fiscal year 2010, core research funding – just \$35 million in fiscal year 2009 – represented less than 0.1 percent of HUD’s total discretionary budget. The majority of even these resources were allocated to mandatory and fixed costs, rather than the transformative research needed to guide the nation’s housing and community development policies.

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For fiscal year 2011, the Department anticipates \$46 million to be allocated for research projects. This range of research will not only improve program effectiveness, HUD expects it will generate substantial savings over time. HUD's proposed transformational approach to research would also inform the decisions of a broad network of public and private sector actors. A key feature of the new approach will be to partner with other Federal agencies, such as the Departments of Transportation and Energy, and the Environmental Protection Agency, on research topics of mutual interest.

HUD will confer with the appropriate Congressional Appropriations and Authorizing committees before finalizing the research agenda for funding under the Transformation Initiative. The list below provides some of the projects expected to be funded in fiscal year 2010 with Transformation Initiative Funding, some of which will also require funding in fiscal year 2011:

- Native American Needs Assessment;
- Moving-To-Work (MTW) Evaluation;
- Housing Discrimination Study;
- Community Development Block Grant Evaluation;
- Field Grants Program;
- Small Grants Program for Demonstrations;
- Moving To Opportunity: Data Archive;
- Innovative Rural Development Initiative;
- Natural Experiment;
- Rental Assistance Modeling;
- Preservation Database; and
- International Research.

Program Demonstrations

The second strategic thrust of the Transformation Initiative is to enable HUD to design and execute a series of major research demonstrations. These trials of new program ideas provide a controlled mechanism to improve programs and help state and local governments develop more effective strategies for housing and community and economic development.

Prior to fiscal year 2010, the Secretary's statutory authority to establish demonstrations had been suspended in annual appropriations legislation for roughly a decade. Demonstrations are necessary to test innovative program approaches to improve the delivery and reduce the cost of public services. HUD requests that the Congress continue to allow the Secretary to undertake demonstrations after receiving approval from the House and Senate Appropriations Chairs. Transformation Initiative funds for approved demonstrations would then be allocated to the R&T account for administration by the Office of Policy Development and Research. The Department is also requesting that in fiscal year 2011 HUD be allowed the flexibility to work collaboratively with other research and philanthropic organizations on testing innovative ideas when those organizations propose and provide substantial resources toward a worthy project. This request for flexibility would require a limited exemption from the Section 204 requirement of the General Provisions, Department of Housing and Urban Development. The Jobs Plus and Moving To Opportunity Demonstrations are very successful examples of the kind of partnerships undertaken prior to the Section 204 restrictions.

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Demonstrations generally require funding over several years and often allow waiver of program rules when conducted to pilot ideas for existing program changes. The funding may cover design resources, additional program costs such as incentives for participating households, and evaluation of the impacts over several years. Since the 1990s, HUD has done relatively few research demonstrations, largely due to budget constraints. Those few demonstrations, however, have been HUD's most important and informative research on real program impacts. They include:

- Jobs Plus. This demonstration in six sites showed that carefully designed rent incentives, totaling \$6.8 million, and job supports in distressed public housing developments improve incomes in both the short- and long-term. The total cost of \$30.2 million included funding from HUD, the Departments of Labor and Health and Human Services, and several foundations. The cost of the research and technical assistance portion was \$25.4 million. Lessons from this initiative are being applied in the Choice Neighborhoods proposal.
- Moving To Opportunity. The demonstration showed that families moving from high poverty public housing to low poverty neighborhoods with a voucher have a dramatic increase in safety, neighborhood quality, and better housing, leading to very large improvements in health. In the short-term, moves to low-poverty neighborhoods do not improve employment or education outcomes. The total cost of \$95 million included funding from HUD, National Institutes of Health, National Science Foundation, Centers for Disease Control and Prevention, other Federal agencies, and numerous foundations. The demonstration covered five sites, 4,608 families and 10,000 individuals. Implementation of the new voucher authority and counseling cost \$70 million, and the research cost for set-up, tracking, and interim and final evaluation was \$25 million.
- Effects of Housing Vouchers on Families. The effort showed that relative to not having housing assistance, receipt of a voucher dramatically reduces homelessness, but leads to lower wages and employment in the short run and has no impact on wages and employment in the mid-term. The total cost of \$53.2 million included \$50 million for implementing new voucher authority, and \$3.2 million for research (set-up; tracking; interim and final evaluation).

Demonstrations can be used to test and evaluate new ways of delivering traditional programs. Demonstrations can also be used systematically to re-engineer and streamline business processes and procedures in HUD's programs.

HUD will confer with the appropriate Congressional Appropriations and Authorizing Committees before finalizing planned demonstrations under the Transformation Initiative. HUD is budgeting \$75 million of fiscal year 2011 TI funding for demonstrations. Demonstrations under consideration for fiscal year 2010 funding that would also require TI funding from fiscal year 2011 include:

- Pre-purchase housing counseling demonstration. The Transformation Initiative can provide the necessary funding to answer this long-standing question about the merits and size of impact of pre-purchase housing counseling at reducing defaults and delinquencies.
- Congressionally requested demonstration on sustainable building practices on Native American Lands. The Department will work with the Congress and Tribal stake holders to design this evaluation.
- Demonstration/evaluation of rent reform in HUD's housing assistance programs. The TI funding will be used in conjunction with the Presidential Evaluation Initiative funding discussed in the Research and Technology justification. The Federal government currently funds rental assistance programs that are subsidized based on tenant income (PBRA, TBRA, Section 202/811) and others that are subsidized to provide low, flat rents (HOME,

LIHTC). There are trade-offs in these different approaches which are not fully understood in terms of the impact on tenants (e.g., housing stability, health), project stability and turnover, and the Federal budget. With respect to budget, the PBRA and TBRA accounts continue to represent a large and growing share of HUD's budget. For 2011, HUD is proposing to make substantial changes to how assisted housing subsidies are administered. As a complement to this effort, this demonstration will study the impact of a number of different rent reform strategies to measure the costs and benefits of those rent reform strategies in terms of tenant and budgetary impacts, including: work requirements; stepped down subsidy to flat subsidy; tiered rents; and utility allowance reform. HUD is plans to use the Moving-to-Work (MTW) authority to test these rent reform initiatives.

- Homeless families demonstrations. Additional funding to support tracking and measuring impacts on 3,000 homeless families of four different housing interventions already under way: permanent housing (Housing Choice Voucher), transitional (project based) housing, rapid re-housing, and the community's typical homeless intervention.
- Family Self-Sufficiency demonstration. The TI funding will be used in conjunction with the funding provided through the government-wide initiative to improve program evaluations discussed in the Research and Technology justification. The Family Self-Sufficiency program is operated by a number of PHAs nationwide. This program provides a service coordinator and sets-aside rental payments associated with increases in earned income for participating tenants into an escrow account. HUD has performed numerous studies on the program to track its implementation and tenant outcomes. Most critics of this research note that its generally positive findings could be due to the self-selection of participants rather than the program itself. New York City Housing Preservation and Development is currently conducting a random assignment experiment to measure the impact of FSS in New York City. HUD'S demonstration would use random assignment of participants in four to five additional sites to complement the New York City study.
- Choice Neighborhoods Demonstration. In fiscal year 2010, the Congress funded a \$65 million Choice Neighborhoods Demonstration that is proposed to be evaluated as discussed in the Research and Technology justification, with additional funding from the Transformation Initiative. The Choice Neighborhoods Demonstration will implement a multi-dimensional intervention in a community designed to produce enduring neighborhood change. In combination, the fiscal year 2010 Choice Neighborhoods demonstration and the fiscal year 2011 Choice Neighborhoods Initiative proposal will result in a set of sites that vary in the mix of interventions applied. With this variation, HUD anticipates being able to craft a rigorous research design that yields meaningful results and lasting insights. This evaluation is also part of the governmentwide initiative, and HUD will work with evaluation experts at OMB and the Council of Economic Advisers during the planning, design, and implementation of this study. The Administration has selected the Choice Neighborhoods program to be the centerpiece of its neighborhood revitalization strategy in cooperation with other agencies, such as the Departments of Justice, Education, and Health and Human Services. The demonstration will evaluate the success of this strategy and contribute to enhanced understanding of approaches that can be replicated in communities across the country.

Technical Assistance and Capacity Building

The community development field is evolving to envision a more comprehensive sustainable approach to neighborhoods and cities. It includes a focus on economic and housing revitalization, but also other amenities that improve the lives of residents, such as jobs, transportation, retail opportunities, education, and health. HUD has embraced this change with new initiatives like Sustainable Communities, Choice Neighborhoods, Catalytic Competition, and the Neighborhood Stabilization Program. In order to implement this expanded vision, the nation needs local practitioners--both local government and non-profit partners -- who understand a more comprehensive approach, who can use current technology to assess needs and to measure success, and who have modern skills to advance the field and enhance the lives of residents.

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The Transformation Initiative will enable HUD to continue delivering a new level of technical assistance and capacity building to Federal funding recipients. The initiative recognizes that human capital, technical competence, and institutional support are critical for the success of HUD's partner organizations, whether state or local, public or private. Enhanced and focused information and more targeted support for grantees will result in better program administration and more integrated planning and action that cross programs and jurisdictions. Effective responses to urban and housing issues increasingly require coordination and awareness of diverse areas of knowledge: housing finance as well as land use planning; economics as well as energy efficient design; community development as well as transportation planning; accessible design as well as job creation strategies.

Traditionally, HUD has delivered compliance-oriented technical assistance to ensure that grantees are fully aware of the rules governing HUD's disparate programs. In fiscal year 2009, Congress provided \$38.5 million in line item funding for technical assistance under the following programs: \$10 million for Public Housing Capital funding; \$4.25 million for Native American Block Grants; \$3.5 million to a national organization representing Native Americans; \$299 thousand for Native Hawaiian; \$2 million for Section 202 housing; \$5 million for CDBG; \$12 million for HOME; and \$1.485 million for Housing Opportunities for Persons with AIDS. HUD's fiscal year 2010 Budget proposed rolling these accounts into one broad technical assistance effort to be funded from global transfers to the Transformation Initiative Fund. In the 2011 Budget, HUD once again requests discretion to target technical assistance funding to those programs that need it most based on the capacity of current grantees, new program requirements (e.g. the implementation of the HEARTH Act, changes in the HOPE VI program), broader economic and social imperatives (e.g., a spike in homelessness, or the impact of high energy and housing costs on housing affordability), or unanticipated crises (e.g. natural disasters).

In order to ensure that these critical but limited resources are targeted appropriately, will conduct an evaluation of the technical assistance needs of its grantee communities in fiscal year 2010 with Transformation Initiative funds. Leveraging these findings, the Department plans to develop three different but interrelated types of technical assistance, which will enable HUD to deliver cross-program technical assistance to help its partners connect the dots between disparate programs at the neighborhood, municipality, county, and metropolitan scale. The three-part approach begins with traditional "compliance assistance" to ensure grantees are good stewards of the Federal resources they receive through HUD. The second element, "practitioner assistance," will be crafted based on the analysis of technical assistance needs and will provide information on best practices, with a specific focus on certain size communities and different housing markets. Practitioner assistance encompasses training on the technical skills required to meet the widely varying housing and community development needs both large and small communities, as well as the provision of consulting resources to apply those skills directly to a project or problem. The third technical assistance element, "capacity building," focuses on strengthening the infrastructures of government and non-profit partners to ensure that they are prepared to do the critical work of housing and community development at the scale and level of complexity necessary to have a real impact.

To implement all three elements of the technical assistance model, the Department proposes to reach out to grant recipients and other partner groups with well crafted information, case studies that serve as models and illustrate choices, peer-to-peer training, and regionally and market focused training, all designed based on a thorough understanding of the needs of HUD's partners at the state and local level. Enhanced technical assistance will enable recipients to plan and implement sophisticated initiatives that anticipate bridge and coordinate diverse factors that are critical to transforming struggling urban and rural communities. Integrating cross-cutting knowledge with program requirements will better serve communities and address the twin components of public accountability: producing results that matter, and avoiding fraud, waste, and abuse.

During fiscal year 2010, the Department will use the roll out of the American Recovery and Reinvestment Act of 2009 (Recovery Act) Neighborhood Stabilization Program-2 (NSP2) as a laboratory for testing the three elements of the new technical assistance model. Plans are already underway for an analysis of community capacity to implement NSP 1 and 2. Once that analysis is complete, HUD will be meeting with technical assistance contractors to design and provide both practitioner and capacity building assistance to communities that reflect the unique needs of different housing markets and delivery systems.

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In addition, the Department seeks to expand upon its existing partnership with universities to recruit and train the next generation of urban planners and community development experts as the government begins to experience high attrition rates from retirements and layoffs and local governments suffer from declining revenues.

This initiative, which builds on an investment HUD plans to implement using fiscal year 2010 TI funds, seeks to expand technical assistance beyond monitoring and compliance, to support practitioner assistance and capacity building. It creates and builds upon partnerships with universities and institutions of higher education to directly increase community capacity through an eligible set of Extension and Fellowship programs. Transformation funds are awarded competitively, with a required matching contribution from a partnership or consortia, including the applying university and local private, governmental, or non-profit entities.

Information Technology

In recent years, HUD's funding for IT has not been sufficient to make major investments in developing, modernizing and enhancing its information systems. Instead, the Department has had to maintain and operate outdated technology, in some cases in existence for 20 years or more. Reliance on these out-of-date systems has prevented the Department from taking full advantage of modern tools to capture, store, share, and disseminate information. The Department's aging systems were not developed to share information or to support modern tools. Furthermore, they are increasingly costly to maintain.

Most of the transformation initiatives outlined above, as well as many of our traditional business processes, will benefit directly from an infusion of new technology and tools. The evolution of HUD's technology, as envisioned by this Technology Transformation initiative, will serve as a foundation for almost all of the transformational objectives outlined above. It will support current and historical data on performance, provide a key source of administrative data to support the evaluation of programs and policies, diffuse innovation, and support state and local partners in using public resources effectively. Across the three areas of technology transformation that follow, funds for this Technology Transformation initiative will complement investments in information systems made through the Working Capital Fund, with the objective that transformation investments will result in long-term reductions in "steady state" funding levels as antiquated systems are replaced by modern IT solutions. As such, HUD must continue its efforts to reduce obsolescence, redundancy and incompatibility of systems. These efforts, which will be driven by a long-term investment planning process, will provide the foundation for the delivery of transformative system solutions. Transformation investments in this category will include costs associated with the full lifecycle for IT delivery, including business process redesign, business requirements development, solution evaluation and selection, technical design, development, testing, training and deployment.

Data transformation. The first priority is to continue to transform the way HUD captures and stores data. Comprehensive, timely and high quality data remain essential for informing HUD's many stakeholders, both internal and external, about the efficiency and effectiveness of the Department's programs, grantees and staff. Data transformation requires a technology infrastructure that is modern and robust.

HUD will continue to enhance its existing systems, while at the same time developing new systems for programs that currently rely on highly manual, "low tech" or outdated solutions. There are a number of large-scale, mission-critical system delivery projects that are expected to be funded through the fiscal year 2010 Transformation Initiative that will need to continue to be supported in fiscal year 2011. Two in particular remain top priorities for HUD:

- First, HUD will continue to use transformation funds to deliver the capabilities outlined in HUD's FHA IT Modernization Plan, which was delivered to Congress on August 14, 2009. Expected capabilities of the system to be delivered in fiscal year 2011 include one or more of the following, depending on the scope of implementation in fiscal year 2010: an Automated Underwriting System (AUS) that all FHA lenders will use as part of the underwriting process, which will enable FHA to incorporate new program rules and requirements consistently and timely; standardized credit assessments, which will operate in conjunction with the AUS; improved appraisal processes to identify problems or irregularities with property valuation; automated application

and approval of new lenders for participation in FHA programs; automated submission of the loan documentation file from lenders who are not currently participating in FHA's Lender Insurance program; validation of new data relevant to the lenders' participation risk, including compliance with SAFE Act reporting, commercial and individual credit profiles and criminal histories; and improved monitoring of borrower and business partner performance after endorsement.

The FHA solution will incorporate new automated risk controls into the origination and insurance process. The AUS will provide FHA the opportunity to manage compliance of all incoming loan files with FHA standards, automatically notify lenders of non-complying loans, quickly and seamlessly implement program changes and increase program uniformity. Electronic risk management tools will enable the agency to target files for additional review if loan data indicates that key variables are questionable, demonstrating potential fraud or misrepresentation. The new tools will also allow FHA to expand processes already in place to allow all lenders to submit loan files electronically. Automated systems will extract data and run it against the FHA rules-based tools prior to endorsement, ensuring compliance with FHA rules. These programs will also allow FHA staff to devote more time to customer interaction and personal review.

- Second, HUD will continue to fund its efforts to develop the next generation voucher management system for our tenant and project-based rental assistance programs. Building on a comprehensive business process redesign, business requirements development, and technology planning and evaluation exercise in fiscal year 2010, HUD will begin the system design and implementation phase. The program solution will enable HUD to correct longstanding weaknesses in managing rental assistance programs, including the timely delivery of payment to owners, tracking the status of a contract, estimating the future cost of contracts and creating a seamless, automated process to reduce human error.

The system will provide HUD managers and staff with a set of tools to: better manage and administer the program; increase efficiency and accountability; track the utilization of funds to minimize fraud, waste and abuse; automate manual processes whenever feasible; facilitate process integration opportunities to reduce system maintenance and development costs; and improve oversight and monitoring as well as knowledge and information sharing through improved data accessibility and reporting.

Analytic Transformation. The second priority is to continue to transform of the way HUD uses data. From a management perspective, HUD must be highly focused on the day-to-day performance of its grantees and staff. Regular reporting on the key program inputs, activities, outputs and outcomes for all offices and at all organizational levels of the Department must become the norm if HUD is to achieve its goal of becoming a data-driven agency. From a program perspective, HUD must ensure that it constantly evaluates the medium- and long-term ability of its programs to achieve desired outcomes. These same management and program evaluation goals are more clearly articulated in the Research, Evaluation and Program Metrics initiative. Finally, from a planning perspective, HUD must continuously look across its programs, and ideally across agencies, to assess the effectiveness of investments at the neighborhood, city/county, and state levels. Doing so will help HUD tailor its programs to complement, rather than compete with or substitute for one another.

Building upon the cross-program transparency and accountability requirements of the Recovery Act, HUD will continue to fund the expansion of its "HUDStat" agency intelligence solution by linking to new program-specific systems and datasets that will inform policy and operational analysis and decision-making at all levels of the department. "HUDStat" will provide a display of program performance--both snapshots and trends--flag areas of concern, and enable the user to obtain detailed information by characteristics such as geography or grantee. The system will also link key support processes in IT, Human Resources and Procurement to the programs they serve.

HUD will continue to expand its geospatial mapping capabilities to enable users to overlay and analyze cross-program data to help grantees in their planning process, as well as evaluate the impact of interacting investments within and across communities. For example, maps of FHA-owned foreclosed homes could be

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overlaid with Neighborhood Stabilization Program grantees who have received funds to purchase such homes for rehabilitation and sale to responsible homeowners.

Communications Transformation. The third priority is to continue to transform the way HUD interacts with its many internal and external stakeholders. HUD is a deeply networked organization with many partners: the Congress, OMB, other Federal agencies, the American public, state and local elected officials, agency heads and program directors, community-based organizations, researchers, advocates, financial institutions, philanthropic organizations, and developers. This network offers a tremendous level of skills and experience that, if brought to its fullest potential, can transform the landscape of America's communities. The conditions for this transformation are nearly ideal. The ever-increasing importance of regional collaboration and innovation, combined with the economic crisis that has left resources in short supply, has highlighted the critical need for clear, real-time, and interactive communication and information sharing. In addition, the significant focus on public transparency and accountability has led to unprecedented hunger for data and information. Internally, HUD can no longer afford to function within its traditional program silos, but must instead find ways to break down organizational barriers to facilitate collaboration and drive innovation.

Building on a completely redesigned and simplified web portal, HUD will look to fund new tools that advance the cause of effective and transparent communication with its stakeholders. First, HUD must continue to develop modern, user-friendly mapping tools to display HUD performance data, including data collected through the "HUDStat" system. Second, HUD must leverage the creative capacity of its partners by providing open access to record-level data, where appropriate, so that they may develop and disseminate the innovative analytic tools that can drive program and policy decision-making. Third, HUD must employ social networking tools to facilitate and encourage dialogue across its network, as well as within its own walls. IT will no longer be an obstacle in making HUD silos work better or with partners.

HUD Salaries and Expenses (S&E) Central Fund

More and more, HUD is relied on to carry out disaster recovery efforts and to quickly implement new programs. In order to ensure timely response to such requirements, the budget request proposes creating a central pool of S&E funding. The S&E funds distributed through the Transformation Initiative will enable the Department to respond timely to such emerging issues, as well as unanticipated needs as they arise throughout the year.

To establish the Salaries and Expenses Central Fund, the Department requests authority for the Secretary to transfer a small amount – up to 1 percent – from each of HUD's salaries and expenses accounts to the TI account. The use of these funds would be restricted to personnel compensation and benefits. On an as-needed and as-available basis, at the Secretary's discretion, S&E funds could be transferred to the TI account to provide targeted, temporary infusions of resources to any of HUD's program offices.

The Central Fund set-aside will provide the flexibility needed to react quickly and effectively to a constantly changing landscape. Possible uses of funds include:

- Disaster Recovery – funding overtime for HUD staff working on short-term disaster response efforts, or bringing on board additional staff to manage long-term recovery efforts.
- New Program Implementation – providing salaries funding to program areas to revise regulations or implement new programs.
- Office Reorganizations – providing available funds to establish new offices in response to Congressionally approved reorganization proposals.

Any funds allocated through the Central Fund would be carefully tracked and planned, as program offices would need to absorb any staff hired into their base FTE allocation during the subsequent budget cycle. Such oversight would be necessary to ensure that the Central Fund provides only a temporary, emergency funding

Transformation Initiative Fund

source and not a permanent inflation of a given account. However, in order to allow FTE funded through the Central Fund to be planned for during the next cycle, without facing funding shortfalls during the interim, HUD requests that all S&E funds transferred to this account remain available through fiscal year 2012.

Process of Implementing the Transformation Initiative

The Office of Strategic Planning and Management (OSPM) will continue to manage the obligation of TI Fund resources, as well as provide program management oversight of funded projects. OSPM will allocate funds to appropriate offices for specific efforts. For example, program evaluations would be managed by the Office of Policy Development and Research.

Once finalized in spring 2010, HUD's new Strategic Plan will be central to the Department's ability to transform itself and will continue to be used as a framework for managing operations and resources. The strategic plan, which identifies the Department's key goals, objectives and measures of success, will be the point of departure for developing the fiscal year 2010 operating plan, including the allocation of funds to projects under the Transformation Initiative. It will also drive the fiscal year 2011 planning process. Criteria for assessing and prioritizing projects would include the connection to HUD's mission and strategic goals, the magnitude of risks faced by HUD's clients, partners and programs, the likelihood of transformative impact, the costs and benefits, and the potential to strengthen HUD's capability for long-term effectiveness.

OSPM will make transformational allocations on the basis of the fiscal year 2011 operating plan. In the areas of research and program demonstrations, however, HUD will confer with congressional Appropriations and Authorizing committees before finalizing funding plans under the Transformation Initiative.

If the Transformation Initiative is to succeed, HUD must continue to make transformation a priority at the highest levels of the Department. The new Office of Strategic Planning and Management, which was created in the fiscal year 2010 Budget and reports directly to the Deputy Secretary, is in the process of hiring staff to support both the direct delivery of transformation solutions, as well as the overall management of the funded projects against established milestones and budgets. In addition to these organizational actions aimed at facilitating leadership focus, TI Fund projects will be incorporated into the Department's new, forward-looking 6-Year Strategic Plan, which accompanies the budget request.

The TI Fund requested in fiscal year 2010, and now fiscal year 2011, is unprecedented in its size, scope and flexibility. HUD recognizes that, in return for this resource commitment, it must be held accountable for the delivery of value-added solutions, and open and transparent in the processes for identifying, prioritizing and delivering all funded projects. The Office of Strategic Planning and Management has the overall responsibility for ensuring accountability to HUD's key stakeholders. Open, honest and frequent communication, will continue to form the foundation of HUD's efforts to create transparency and accountability around the Transformation Initiative.

HUD is committed to delivering results on TI-funded projects. This commitment supports the overarching theme of responsibility reflected throughout the fiscal year 2011 Budget request. HUD is making investments that will result in longer term savings, better targeting of our resources, and better quality of services for our residents. More specifically, supporting IT modernization efforts that move the Department off of aging legacy systems are expected to reduce long-term steady-state costs incurred through the Working Capital Fund; funding new delivery models for Technical Assistance are expected to result in the more cost effective use of tightening program budgets; and investing in evaluation and demonstrations offer opportunities to identify the most effective and impactful use of taxpayer dollars in achieving key policy objectives.

Transformation Initiative Fund

The following table represents maximum possible program transfers into the Transformation Initiative Account. It does not represent actual transfers.

Transformation Initiative Fund, Maximum Program Transfers	Amount
Tenant-Based Rental Assistance.....	\$195,506,632
Public Housing Capital Fund.....	20,442,000
Public Housing Operating Fund.....	48,290,000
Choice Neighborhoods.....	2,500,000
Native American Housing Block Grants.....	5,800,000
Indian Housing Loan Guarantee Fund.....	7,500
Native Hawaiian Housing Block Grants.....	100,000
Project-Based Rental Assistance.....	89,760,000
Housing Counseling.....	880,000
Housing for the Elderly (Section 202).....	2,737,000
Housing for Persons with Disabilities (Section 811).....	900,368
MMI/CHMI Fund.....	1,355,000
Manufactured Housing Standards Program.....	70,000
Rental Assistance Program (Section 236).....	406,000
Community Development Fund.....	43,801,000
HOME Investment Partnerships Program.....	16,500,000
Capacity Building.....	600,000
Homeless Assistance Grants.....	20,550,000
Housing Opportunities for Persons with AIDS.....	3,400,000
Fair Housing Activities.....	611,000
Lead Hazard Reduction.....	1,400,000
Maximum Transformation Initiative program transfers.....	455,616,500

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Transformation Initiative Fund

The following table represents maximum possible transfers into the Transformation Initiative Account from the salaries and expenses accounts. It does not represent actual transfers.

Transformation Initiative Fund, Maximum S&E Transfers	Amount
Executive Direction.....	\$302,650
Administration, Operations and Management.....	5,406,226
<i>Office of the Chief Human Capital Officer.....</i>	<i>[650,490]</i>
<i>Office of Departmental Operations and Coordination.....</i>	<i>[91,220]</i>
<i>Office of Field Policy and Management.....</i>	<i>[490,900]</i>
<i>Office of the Chief Procurement Officer.....</i>	<i>[159,316]</i>
<i>Office of the Chief Financial Officer.....</i>	<i>[338,310]</i>
<i>Office of the General Counsel.....</i>	<i>[864,820]</i>
<i>Office of Departmental Equal Employment Opportunity.....</i>	<i>[31,150]</i>
<i>Center for Faith-Based and Community.....</i>	<i>[13,160]</i>
<i>Office of Sustainable Housing and Communities.....</i>	<i>[28,870]</i>
<i>Office of Strategic Planning and Management.....</i>	<i>[44,450]</i>
<i>Office of Disaster and Emergency Management.....</i>	<i>[48,750]</i>
<i>Non-Personnel Services</i>	<i>[2,644,790]</i>
Office of Community Planning and Development.....	1,057,680
Office of Housing.....	3,959,170
Office of Public and Indian Housing.....	1,972,820
Office of Policy Development and Research.....	235,880
Office of Healthy Homes and Lead Hazard Control.....	67,620
Government National Mortgage Association.....	109,020
Office of Fair Housing and Equal Opportunity.....	679,640
Total Transformation Initiative S&E Central Fund transfers.....	13,790,706

**HUD TRANSFORMATION INITIATIVE FUND
Program Offsets
(Dollars in Thousands)**

Combat Mortgage Fraud	<u>Amount</u>
2009 Appropriation .....	...
2010 Appropriation/Request	\$20,000
2011 Request	<u>\$20,000</u>
Program Improvements/Offsets .....	...

Proposed Actions

This funding will continue to support efforts to combat mortgage fraud through a number of different critical activities including targeted technical assistance, data systems improvement through information technology, and a variety of research efforts. Examples of Transformation Initiative activities that may be implemented to combat abusive and fraudulent mortgage practices include:

- Development of FHA anti-fraud data tools that would be applied to all phases of the mortgage insurance process to detect misrepresentation at consumer, application, and property levels;
- Technical Assistance to support housing counseling organizations with identifying mortgage fraud and addressing fair lending issues;
- Training of industry and regulatory agencies and contract hiring to monitor state compliance with SAFE and RESPA; and
- Research, assessment and data analysis to assist in the effective implementation of the Neighborhood Stabilization Program and the Homeowners Affordability and Stability Plan (Making Home Affordable Plan) mortgage loan modification program.

HUD TRANSFORMATION INITIATIVE FUND

Justification of Proposed Changes in Appropriations Language

The 2011 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined.

For necessary expenses for combating mortgage fraud, \$20,000,000, to remain available until expended. In addition, of the amounts made available in this Act under each of the following headings under this title, the Secretary may transfer to, and merge with, this account up to 1 percent from each such account, and such transferred amounts shall be available until September 30, 2016[2012], for (1) research, evaluation, and program metrics; (2) program demonstrations; (3) technical assistance and capacity building; and (4) information technology: "Tenant-Based Rental Assistance", "Public Housing Capital Fund", "Public Housing Operating Fund", "Choice Neighborhoods Initiative", ["Revitalization of Severely Distressed Public Housing", "Brownfields Redevelopment", "Section 108 Loan Guarantees", "Energy Innovation Fund",] "Native American Housing Block Grants", "Native Hawaiian Housing Block Grants", "Housing Opportunities for Persons With AIDS", "Community Development Fund", "HOME Investment Partnerships Program", ["Self-Help and Assisted Homeownership Opportunity Program",] "Capacity Building", "Homeless Assistance Grants", "Project-Based Rental Assistance", "Housing for the Elderly", "Housing for Persons With Disabilities", "Housing Counseling Assistance", "Payment to Manufactured Housing Fees Trust Fund", "Mutual Mortgage Insurance Program Account", ["General and Special Risk Program Account", "Research and Technology",] "Lead Hazard Reduction", "Rental Housing Assistance", and "Fair Housing Activities": [Provided, That of the amounts made available under this paragraph, not less than \$80,000,000 and not more than \$180,000,000 shall be available for information technology modernization, including development and deployment of a Next Generation of Voucher Management System and development and deployment of modernized Federal Housing Administration systems: Provided further, That not more than 25 percent of the funds made available for information technology modernization may be obligated until the Secretary submits to the Committees on Appropriations a plan for expenditure that (1) identifies for each modernization project (a) the functional and performance capabilities to be delivered and the mission benefits to be realized, (b) the estimated lifecycle cost, and (c) key milestones to be met; (2) demonstrates that each modernization project is (a) compliant with the department's enterprise architecture, (b) being managed in accordance with applicable lifecycle management policies and guidance, (c) subject to the department's capital planning and investment control requirements, and (d) supported by an adequately staffed project office; and (3) has been reviewed by the Government Accountability Office: Provided further, That of the amounts made available under this paragraph, not less than \$45,000,000 shall be available for technical assistance and capacity building: Provided further, That technical assistance activities shall include, technical assistance for HUD programs, including HOME, Community Development Block Grant, homeless programs, HOPWA, HOPE VI, Public Housing, the Housing Choice Voucher Program, Fair Housing Initiative Program, Housing Counseling, Healthy Homes, Sustainable Communities, Energy Innovation Fund and other technical assistance as determined by the Secretary: Provided further, That of the amounts made available for research, evaluation and program metrics and program demonstrations, the Secretary shall include an assessment of the housing needs of Native Americans, including sustainable building practices: Provided further, That of the amounts made available for research, evaluation and program metrics and program demonstrations, the Secretary shall include an evaluation of the Moving-to-Work demonstration program: Provided further, That the Secretary shall submit a plan to the House and Senate Committees on Appropriations for approval detailing how the funding provided under this heading will be allocated to each of the four categories identified under this heading and for what projects or activities funding will be used: Provided further, That following the initial approval of this plan, the Secretary may amend the plan with the approval of the House and Senate Committees on Appropriations] Provided, That the Secretary shall fund each of the four general purposes specified above at not less than 10 percent, and not more than 50 percent, of the aggregate transferred amount: Provided further, That with respect to amounts made available under this heading for research, evaluation, program metrics, and program demonstrations, notwithstanding section 204 of this title, the Secretary may make grants or enter into cooperative agreements that include a substantial match contribution. In addition, of the amounts made available under any

Transformation Initiative Fund

account in this title for salaries and expenses (except for the Office of Inspector General account), the Secretary may transfer to this account up to 1 percent of such amounts, to remain available until September 30, 2012.

Explanation of Changes

The proposed language re-establishes the 6-year period of availability, program account listing, and usage thresholds (i.e. not less than 10 percent or more than 50 percent of total program transfers may be spent on a given purpose) requested in the fiscal year 2010 Budget. It also allows the Department to waive requirements established by Section 204 of the General Provisions, Department of Housing and Urban Development Appropriations Act when using Transformation Initiative funds to fund grants or cooperative agreements where the recipient contributes a substantial match. Further, the language establishes a limited central HUD S&E account.

HUD TRANSFORMATION INITIATIVE FUND
Crosswalk of 2010 Changes
(Dollars in Thousands)

<u>Budget Activity</u>	2010 President's Budget Request	Congressional Appropriations Action on 2010 Request	2010 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2010 Resources
Direct Appropriation	\$20,000	\$20,000	...	...	...	\$20,000
TI Program Transfers	[434,564]	[238,787]	...	...	...	[238,787]