

# CHAPTER 10

## CATALYZING CHANGE AT HUD: BUILDING A MORE EFFECTIVE DEPARTMENT

Retooling HUD  
for a Catalytic Federal Government:  
A Report to Secretary Shaun Donovan

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This report provides recommendations for changing the way the U.S. Department of Housing and Urban Development (HUD) operates to help the department become more effective and impactful. It identifies:

- Why organizational change is needed at HUD.
- Core principles for “catalytic government” – a framework for open, enabling, strategic, results-oriented government that we applied to develop recommendations for how HUD could become more effective.
- Recommendations for action in the short- (within 90 to 180 days) and medium- (within first year) terms.
- Leadership requirements for transforming HUD.

In short, we lay out a case and initial agenda for *organizational* transformation of HUD. The Secretary’s personal, visible, and sustained leadership in championing such an undertaking is essential to its success.

## INTRODUCTION

### A. Why organizational change is needed at HUD

These are three key reasons why the Secretary should be concerned with the need for organizational change at HUD:

- *First and foremost, the nation needs HUD to step up and play a strong leadership role in executing and coordinating the national response to today’s pressing housing and community development challenges.* On issue after issue, HUD has ceded leadership to other agencies that have a role in areas relevant to housing and development issues, but which lack the special commitment to strong families and strong communities that HUD brings. Examples include rising foreclosures (Treasury and Federal Deposit Insurance Corporation [FDIC]), the implications for housing of rising energy prices (Departments of Energy and Transportation [DOT] and the Smart Growth Office of the Environmental Protection Agency [EPA]), the housing needs of communities impacted by disasters (Federal Emergency Management Agency [FEMA]), and the production of affordable rental housing (Internal Revenue Service [IRS], as administrator of the Low-Income Housing Tax Credit [LIHTC]).
- *Second, many partners experience HUD as more of an obstacle than a contributor to progress at the local level.* One commonly repeated refrain is, “We wish HUD would just get out of the way!” There can be no more powerful indictment for an agency charged with helping to strengthen families and communities. In our view, it reflects the predominance of HUD’s role as an enforcer of rules and regulations, rather than an enabler and catalyst for positive change.
- *Third, major changes are needed in HUD’s mission, structure and systems to ensure that HUD can fulfill its critical functions in a changed world.* Effective and attentive leadership at HUD should help to boost staff morale and instill more of a “can-do” attitude. But this alone will not solve HUD’s fundamental challenges, which include: the lack of a clearly defined and achievable mission; the failure to understand and design approaches that capitalize on HUD’s “value-added” in a world of devolution; and the lack of capacity in many of the areas needed to meet current challenges.

This report provides initial recommendations on how to approach this change in 2009 at HUD. As noted below (p. 190), we believe these recommendations should serve as the foundation for a deeper and more detailed plan to transform HUD that would be developed and implemented from 2010 on.

## B. Core Principles for “Catalytic Government”

Among the many things the leader of an organizational transformation must do to mobilize the entity’s employees and stakeholders is to articulate a set of organizing principles that guide change. We developed our recommendations by applying four principles of catalytic government – a blend of “reinvention” approaches and an Obama-style, bottom-up and inclusive approach – to the specific challenges facing HUD. Briefly stated, the four principles are:

### **Principle 1: Government that enables.**

While HUD cannot ignore its responsibility for enforcing federal statutes and regulations, it also cannot let this role so dominate its overall approach that it becomes an obstacle to progress, rather than an enabler. In our view, it is essential that HUD focus more attention on *enabling progress at the state and local level*. To this end, HUD needs to better understand and appreciate its “value-added” role at the state and local levels and then build out its capacity to play this role more effectively.

### **Principle 2: Government that is open, transparent, and responsive.**

Like many bureaucracies, HUD can be insular, secretive, and in insufficient contact with the practitioners and other stakeholders that use HUD programs to achieve positive change. By opening up the agency to regular and meaningful contact and exchange with the full range of its constituencies – both through meetings and through electronic communications – HUD can learn how to better meet its partners’ needs.

### **Principle 3: Government that is results-oriented.**

Like all federal agencies, HUD is required to report on its performance under the Government Performance and Results Act. HUD staff devotes an enormous amount of time and energy to complying with the requirements of this Act, yet the performance information generated is seldom used as a real management tool. HUD needs to identify a more limited set of goals and standards that it will actually use to manage its affairs and hold itself and others accountable.

### **Principle 4: Government that is strategic.**

HUD needs to become more strategic in how it approaches its work. Right now, HUD feels principally like a collection of miscellaneous programs, organized loosely around the themes of affordable housing and community development. There is obviously a good historical explanation for this – HUD’s programs were created over a long period of time by different Administrations and Congressional leaders – but the effects of this non-strategic approach are preventing HUD from reaching its potential as a facilitator and enabler of progress at the local level.

Without a clear strategic vision that explains what HUD’s “value added” is and what HUD ultimately seeks to achieve, the program offices tend to focus on the most pressing of their mandates – enforcement of HUD laws and regulations – rather than on achievement of HUD’s substantive goals. The lack of vision also helps explain why collaboration between programs and agencies is not highly valued; if there’s no higher goal to which one is aspiring, why engage in the difficult work of collaboration?

Embedded in these principles is a vision of HUD operating in the not-too-distant future as *a value-adding, engaged, and accountable partner with local, state, and federal practitioners and stakeholders across the nation*.

An earlier version of this report, prepared for the Transition Team, focused on a series of transformational approaches to organizational change that we have applied in conjunction with these principles of catalytic government in developing our recommendations. To simplify this report, we do not offer those approaches as a parallel organizing framework for our recommendations. However, it may be useful to note that the recommendations that follow rely heavily on these transformational approaches, which include: *strong leadership by the HUD secretary* (top-down); *strong engagement with outside constituencies* (outside-in); *input from HUD employees* (bottom-up); and *inter-office and inter-agency collaboration* (cross-cutting).

## RECOMMENDATIONS FOR ACTION

We list below a series of recommendations that we have developed to implement and apply the principles of catalytic government. We have organized these recommendations according to four categories that roughly correspond to the steps that an organization would take in developing a strategic plan. This is not to say that this report comes anywhere close to outlining a new strategic plan for HUD. But it does identify opportunities for short- and medium-term progress in each of these areas that could help lay the groundwork for a more fundamental transformation plan.

The four organizational categories are:

- A. Mission Articulation:** Updating HUD’s mission to reflect current challenges.
- B. Strategic, Program and Product Alignment:** Clarifying the “value added” of HUD and implementing appropriate approaches to delivering this value.
- C. Structural Redesign:** Structural changes within the organization of HUD that could help HUD better achieve its mission and deliver its value-added.
- D. Systems Development:** Process and data improvements that would help HUD better achieve its mission and deliver its value-added.

Each recommendation is classified as either short- or medium-term:

*Short-term actions (to be taken in the first 3-6 months):* These actions tackle immediate “hot spot” issues; send important change signals to constituencies; and/or put in place essential building blocks for long-term change.

*Medium-term actions (to be taken in first year):* These actions build on short-term actions and expand the transformation effort.

We believe these recommendations should serve as a foundation for a deeper, more detailed plan to transform HUD that would be developed early in this term and include a more systemic approach to each of the four categories addressed here (mission articulation, program and product alignment, structural redesign, and systems development), as well as the fostering of a widespread “can do” organizational culture in Washington and the field offices. Many ideas have been raised for more fundamental changes within HUD – for example, some have proposed reorganizing of responsibilities among HUD HQ Offices or spinning off various HUD functions to independent corporations – that merit full consideration in light of the mission and vision developed during this initial period.

The following are our recommendations for initial steps during 2009 to get HUD back on track and in a position to develop a longer-term plan for transformation.

### A. Mission Articulation

#### **Recommendation 1: HUD should clarify and update its mission to enable HUD staff and partners to better understand HUD’s role and guide current and future policy development.**

The world has changed considerably since HUD was established, and new housing and community development challenges have arisen. One of the most important questions facing HUD is whether to update and expand its mission to focus on the broad set of housing and community and economic development challenges now facing the country. The answer to this question will impact the other issues addressed by this report, including HUD’s program alignment, structure, and systems development.

Despite its substantial financial and information resources and nationwide presence, HUD remains a marginal player on many of the most vital housing problems facing the nation. These include the foreclosure crisis, the implications for housing of rising energy prices, the specialized housing needs of the rapidly increasing number of older Americans, disaster preparation and response, the growing housing challenges facing working families, etc. A similar argument could be made about HUD’s positioning in the nation’s community and economic development challenges, where the agency has done little to help local communities address the emerging and powerful regional dynamics that establish a new and different context for community prosperity and sustainability. On other key issues – such as the continuing geographic concentration of low-income households – HUD programs are both part of the problem but

also potentially part of the solution.

If HUD chooses to take on an expanded mission in a meaningful way – and we think it should<sup>93</sup> – have to determine how best to execute it without undermining its long-standing commitment to meeting the pressing housing needs of the poor. This will require new and innovative approaches, including many of the value-added strategies discussed elsewhere in this report (research, technical assistance, incentives, etc.), as well as structural changes in how HUD allocates and organizes its staff.

Below are two initial big-picture recommendations for implementing this expanded vision for HUD. Both have applications in the short- and medium-terms. Other recommendations are included in the next two sections (program alignment and structure) of this report.

**Recommendation 1.1: HUD should stimulate the incubation of new ideas on how HUD and state and local communities can more effectively respond to key long-term housing and urban development issues,** such as rising energy prices, the growing population of older Americans with specialized housing and services needs, the housing challenges facing working families with incomes that generally exceed the level targeted by HUD programs, disaster preparation, etc. HUD should use the tools discussed in the next two sections – collection and dissemination of information on effective practices, research demonstrations, use of financial and regulatory incentives, interagency task forces, etc. – to incubate these ideas.

**Recommendation 1.2: HUD needs to expand its expertise on the core housing challenges facing the nation.** HUD has developed specialized expertise on its own laws and regulations, but lacks expertise on housing and community and economic development policy more broadly. HUD needs to identify and rectify its staffing deficiencies on each of the nation’s pressing housing and urban development problems and recast the job descriptions of these experts to focus on developing more effective strategies for meeting the actual housing and urban development problems, rather than simply on the generally narrow role of HUD programs in addressing those problems. HUD further needs to build much closer relationships with outside organizations that have or could easily build the necessary expertise and determine how best to deepen and leverage that expertise for the benefit of the nation.

## **B. Program and Product Alignment**

**Recommendation 2: To remain relevant in this era of devolution, HUD needs to develop new ways of influencing the activities of state and local governments.**

HUD has not adapted effectively to the devolution of authority from the federal to the state and local levels that has taken place over the past thirty years. Some programs – notably public housing and the Section 8 voucher program – remain highly (and, some would argue, over-) regulated. Other programs – notably Home Investment Partnerships (HOME) and the Community Development Block Grant (CDBG) – provide state and local government with more flexibility but, in doing so, virtually abdicate any federal role at all other than processing the awards and monitoring fraud.

The world has changed in ways that HUD needs to better understand and process. For example, much of the innovation in affordable housing and community development is now happening at the state and local levels, but HUD is still focused almost entirely on the rules and regulations of its own programs that form only a small piece of most affordable housing and community development deals. HUD needs to gain a better understanding of how its programs relate to the broader set of tools available to state and local governments and consider how HUD can help states and localities respond more effectively to the housing and community development challenges that they face.

To respond effectively to these challenges, HUD needs to learn how to exert influence by “adding value” to local decision-making – through incentives, for example, rather than new requirements, and by developing and sharing expertise on how to design and execute more effective housing and urban development strategies at the state and local level. HUD also can help by developing unique data/information products and through the convening and

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<sup>93</sup> The Task Force on Extending HUD’s Urban and Regional Mission has recommended that HUD’s mission be revised to include the phrase, “to foster decent homes and livable communities in economically strong and environmentally sustainable metropolitan regions.”

mobilization of stakeholders to impact local conditions. This does not mean that HUD should give up on regulation and performance standards; certain issues – such as housing-quality standards and, potentially, energy-efficiency standards – will always be addressed most effectively through regulatory requirements. But HUD needs to develop an ability to influence outcomes through such non-regulatory processes as catalytic research and information products, identification of best practices and tested innovations, technical assistance, and regulatory and financial incentives. To this end, we recommend the following:

**Recommendation 2.1: HUD should charge the Assistant Secretary for Policy Development and Research (PD&R) with the task of developing a strategic plan for how HUD will build and disseminate knowledge about effective state and local housing and community and economic development strategies (short-term).**

These strategies should focus on meeting state, metro area, and local needs, and not simply on HUD programs. The aim should be to assemble the best-available knowledge base and develop a series of channels for effectively disseminating this information – including online guidebooks and forums, conferences and trainings, and direct technical assistance. Because there is a great deal of expertise on these issues within the industry and at the state and local level, HUD should strive to build on existing efforts rather than reinvent the wheel. Executing this function by augmenting and coordinating the efforts of partner institutions should be strongly considered.

**Recommendation 2.2: HUD should provide funding in HUD’s FY 2010 budget to allow PD&R to hit the ground running in executing this strategy. Funding should also be included in the FY 2010 budget of the Office of Community Planning and Development (CPD)<sup>94</sup> for a more expansive form of technical assistance (short-term) to state and local grantees that goes beyond the narrow rules of HUD’s programs to help them solve their housing and community and economic development challenges.**

**Recommendation 2.3: HUD should use the FY 2011 budget process to develop and introduce a limited number of financial and regulatory incentives to achieve core Administration outcomes (medium-term).** Tangible rewards for achieving such Administration priorities as improved energy-efficiency and proximity to public transit and job centers would help shape how states and localities use both federal and locally-generated funds.

**Recommendation 2.4: HUD should actively compile and then implement regulatory or sub-regulatory incentives to achieve key policy goals that do not require congressional actions.** In many cases, rather obscure rules can have a big impact. For example, state and local practitioners report that the burden of accounting for so-called “program income” in the HOME program acts as a disincentive for jurisdictions to recycle the funds to help future generations of homebuyers. HUD clearly ought to be incenting rather than discouraging the preservation and recycling of subsidy. While some fixes to this problem might require Congressional action, others may be implementable by HUD directly.

**Additional suggestions for adding value to state and local decision-making.**

The following are some specific ideas for how HUD could add value to local decision-making that should be considered by HUD in developing the strategic plan referenced above.

**Recommendation 2.5: HUD should team with social-innovation organizations such as the Ashoka and Skoll Foundations and with the Kennedy School’s Innovations in American Government Awards Program, to conduct prize competitions to identify the most promising feasible, sustainable, and scalable innovations for community and urban development (medium-term).** Competitions with significant financial prizes succeed in drawing in ideas from a great diversity of sources. The entries are vetted by experts and tested for their potential. Winners are typically given awards, publicity, and opportunities to implement their ideas. These contests generate enormous amounts of information about innovations and they honor social innovators. A first round of prize competitions could focus on:

- Strengthening local civic engagement by low-income individuals and neighborhoods.
- Ways to help low-income parents seeking to improve their children’s education – by selecting their school; participating in school-based learning activities; and organizing out-of-school learning activities.

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<sup>94</sup> The Task Force on Extending HUD’s Urban & Regional Mission has recommended that this position be renamed the “Assistant Secretary for Urban, Regional, and Community Development.”

**Recommendation 2.6: HUD should support the development of an online Workforce Housing Resource Center to increase the knowledge base of workforce housing providers across the country and facilitate the sharing of information among and between them (medium-term) by building on or supplementing such existing resources as HousingPolicy.org, PolicyLink’s Equitable Development Toolkit, and the best practices resources of Business and Professional People for the Public Interest (BPI) (www.bpichicago.org).**

The Center could create a ‘social network’ through which workforce housing providers can share information; collect, organize and disseminate lessons learned from the field; analyze, distill and disseminate information from relevant federal, state and local programs; provide online training on critical workforce housing delivery issues; establish forums for collective discussion and analysis of innovative approaches to key issues: finance, land acquisition, rehabilitation of existing facilities, planning and design, construction, etc. The Center should provide practical, evidenced-based information that housing providers can directly use in their work, with the overall goal of increasing the quality and the supply of workforce housing through a better understanding of strategies that have proved successful in the field.

**Recommendation 2.7: HUD should deploy an Internet-based iCommunity Video Network for citizen-generated video news (medium-term), using existing video services such as YouTube, to share information and learning about housing and community development related to HUD and other state and federal projects.**

**Recommendation 2.8: HUD should consider using its information technology resources to host interactive communities (medium-term) where local officials could learn from each other how such topics as how to re-circulate second generation Empowerment Zone loans and neighborhood and other organizations could exchange best practices about, for instance, protecting vacant foreclosed properties.**

**Recommendation 3: HUD should develop a “flexible performance partnership” with public housing agencies.**

In contrast to the Office of Community Planning and Development, which has largely given up influencing how grantees use CDBG (and, to a lesser extent, HOME) funds, the Office of Public and Indian Housing appears to suffer from the opposite problem. In the public housing and voucher programs, highly prescriptive regulations lead to a climate in which agencies spend a tremendous amount of time on compliance, and have less ability to respond creatively to the challenges they face. To address this problem, we recommend the following:

**Recommendation 3.1: HUD should establish a national advisory group of Public Housing Agencies, tenant and housing advocates, and HUD staff to recommend the design and expansion of “flexible performance partnerships” between HUD and state and local housing authorities (short-term).** Many local and state housing agencies perceive HUD to be overly regulating their actions, creating bureaucratic inefficiencies in reporting and high levels of rigidity that stifle innovation. These partners will best achieve HUD’s broader goals when HUD establishes clear outcomes, requires a relatively small set of rules, and allows for broad flexibility in achieving those outcomes, or when HUD offers local partners the option of proposing *locally* desired outcomes, aligned with HUD’s goals, which HUD can then approve and support. Flexible performance agreements should include clarity about what results are desired – clear definable indicators or metrics; flexibility about how to accomplish the particular results; and accountability for the entity’s performance. The advisory group should examine the experience of HUD’s “Moving to Work” demonstration, which allows public housing agencies to have broad budget authority and relaxed supervision, and how it illuminates the benefits and challenges of performance flexibility.

**Recommendation 4: HUD should use major research demonstrations to catalyze innovation.**

As New York City is demonstrating through its rigorous evaluation of recommendations developed through the City’s Commission for Economic Opportunity, there is a tremendous need to develop a stronger knowledge-base about what strategies are most effective for expanding the availability of affordable housing and catalyzing community and economic development. This will require a much larger budget for research and a different approach to research – for example, emphasizing large-scale rigorous research demonstrations that definitely answer key questions over smaller descriptive projects. While a budget of \$100 to \$200 million per year for research may sound like a lot of money compared with the roughly \$10 million per year that HUD currently spends (not counting the American Housing and other census surveys), it is a fraction of what a private corporation with a comparable budget would spend on R&D

and, ultimately, a small investment compared with the benefits of making \$35 billion per year of programs much more effective.

To this end, we believe that *HUD should propose and execute a series of major research demonstrations to test new ideas for improving its programs and helping state and local governments develop more effective housing and community and economic development strategies (short- and medium-terms)*. The collection and dissemination of information on best-practices, while valuable, can only take one so far. At some point, rigorous evidence is needed to help communities make better decisions and to help HUD strengthen its programs, and this requires both vision and resources. The following are two specific examples of demonstrations worth considering:

**Recommendation 4.1: HUD should add a research component to the Moving to Work Demonstration included in the proposed Section 8 Voucher Reform Act (short-term).** By adding a major research component to Moving to Work, with the funds needed to execute it, HUD could rigorously evaluate a series of alternative strategies for helping families in public housing and the voucher program make progress toward self-sufficiency. The emphasis should be on comparatively low-cost solutions that could be taken to scale.

**Recommendation 4.2: HUD should conduct a demonstration to examine how to take Shared Equity Homeownership to scale (short-term).** Shared equity homeownership is a promising approach for providing lower income families with sustainable homeownership opportunities, but most current programs are relatively small. A research demonstration could study different approaches for taking shared equity homeownership to scale, while also helping to meet pressing short-term needs for foreclosure prevention, neighborhood stabilization, the creation of jobs through new construction / substantial rehab, and the creation and preservation of affordable housing near public transit. The demonstration could be incorporated into the Neighborhood Stabilization Program or executed as a stand-alone program. In either case, the demonstration would help to raise the profile of this promising practice, assess how programs could operate efficiently at scale, and encourage states and localities to consider this model in planning their expenditures of HOME, CDBG and locally generated funds.

**Recommendation 5: HUD should use performance measurement as a tool for ensuring local accountability (medium-term).**

HUD should develop measures of performance that will allow individuals at the state and local levels to hold their housing departments and agencies accountable and conduct trainings to empower state and local legislative officials, as well as community members, on how to use and interpret these findings. The HOME program in the Office of Community Planning and Development has already created such a report (which they call a “dashboard” report).<sup>95</sup> These efforts should be supported and expanded to other offices within HUD, including Public and Indian Housing.

**Recommendation 6: HUD should expand its support for building the capacity of non-profit and civic organizations (medium-term).**

Local organizations, if trained and supported, have the capacity to help fulfill HUD’s programmatic goals efficiently and to allow for context-specific innovations. HUD has a long history of funding capacity-building efforts through LISC, Enterprise, Living Cities, and others. HUD should examine these efforts closely to determine how they could be expanded and linked to other similar efforts by other national nonprofit associations, philanthropic funders and state governments. Among the possible directions of capacity building are:

- Allocating funds to community-based organizations engaged in effective community self-help/organizing; tenant groups in public and Section 8 housing that work to improve neighborhood conditions; congregation-based organizing groups; and youth-development organizations that promote community service. Most of these funds should go to regional and national intermediaries that provide training, technical assistance and networking (e.g., Center for Community Change and Gamaliel).
- Training state and local legislators, citizen groups, and organizations to monitor what HUD and local and state housing agencies are doing and how their funds are being used, using digital information and other methods.
- Setting up alternative approaches to building local capacity which more effectively reward organizations that achieve high levels of performance. If local and state governments systematically rewarded high-performing

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<sup>95</sup> <http://www.hud.gov/offices/cpd/affordablehousing/reports/dash.cfm>

entities with CDBG and other funds, these organizations could expand and become even more effective and sustainable. While there are a number of challenges to implementing this idea – including how to identify high performers and how to ensure that new organizations have the opportunity to demonstrate performance – it is worth considering how HUD could provide support for such an effort.

**Recommendation 7: HUD could build on the outreach capabilities developed by the Obama Campaign to engage citizens directly in change (medium-term).**

Work with national nonprofits such as YMCA-USA, United Way, Local Initiatives Support Corporation (LISC), Enterprise, Rebuilding Together, and Habitat for Humanity, as well as major national foundations, to launch a Community Change Corps that mobilizes local volunteers for specific, time-limited campaigns. The Obama presidential campaign inspired a remarkable degree of citizen involvement and an Obama presidency has the potential to do the same—transforming citizens’ relationships to each other and their community. HUD should be a leader in building national coalitions and campaigns to energize citizen engagement in influencing local decisions and changing local conditions in direct, hands-on ways. Several conditions stimulate citizen involvement: a measurable, achievable, and inspiring goal; stable teams of volunteers organized and supported to achieve short-term targets that require general, not specialized, skills; and highly decentralized “locally owned” control of teams and activities to allow speed and creativity and build commitment. We have considered several targets for the Community Change Corps:

- Energy use/cost reduction: volunteers conduct residential energy audits to advise homeowners and renters about easy ways to cut energy use and rehabilitate housing to boost energy efficiency, as well implementing energy-efficient improvements.
- Student success: volunteers provide tutoring, mentoring, and workplace internships for middle- and high-school students.
- Toddler health: volunteers ensure that every child under 2 in a neighborhood is tested for lead poisoning.
- Community safety: volunteers work with local law enforcement to bolster community policing and crime watches during high-crime periods.

**Recommendation 8: Develop a strategic investment plan for data gathering and information products and services (short- and medium-terms).**

Current, accurate, detailed socioeconomic data provided mainly by HUD are critical for informing intelligent housing and urban development policy and programs at all levels of government as well as for promoting efficient market behaviors. Local stakeholders, such as local governments, often have different uses for the data than national advocates, the Congress, and businesses. Unfortunately, due to years of neglect, the nation’s housing statistics fall substantially short of meeting user needs, particularly in light of the current crisis in housing finance. As a result, HUD has little systematic data capacity. Data availability is uneven and data accessibility has fallen behind the information technology curve. The department has information burrowed within its programs but it has limited capacity to use it, let alone make it available in a systematic way to users. HUD stakeholders need user-friendly data and analytics to help them make decisions, including decisions related to HUD programs. These information resources do not currently exist.

Creation of a high-performing data system has to occur in an incremental way. Rather than seeking a “grand redesign” of all HUD data systems, it makes more sense to start by working with stakeholders to identify their priorities for information. Let demand drive change. Some of the needs of local stakeholders are already evident. Specifically:

- HUD should ensure access to current, accurate, detailed socioeconomic data for local areas, particularly with regard to population size and characteristics, economic conditions, and housing supply, characteristics, and market conditions. Of particular importance are adequate funding and implementation for the decennial census, the American Community Survey, other Census Bureau housing-related programs, and local economic statistics programs housed at the U.S. Census Bureau, Bureau of Labor Statistics, and Bureau of Economic Analysis; a redesigned population estimates program; a revitalized American Housing Survey; the creation of new efforts to assess current local housing and residential finance market conditions; and an overall assessment of the extent to which local officials, advocates and practitioners have the data they need.
- HUD’s Office of Policy Development and Research (PD&R) should work with private, public, and nonprofit data integrators such as Dataplace, Policy Map, and Economy.com, as well as other federal agencies such as

the Department of Transportation, to develop an integrated Web-based capacity that provides data products and tools (e.g., maps and tables) with integrated and geospatial HUD and non-HUD data.

- HUD’s Office of Community Planning and Development should develop a strategy to help create and use an array of local information and indicator systems and analytic tools for community development that have emerged in the last decade.
- HUD should produce an annual State of Metropolitan Areas Report, a successor to the defunct State of the Cities Report. (This could be done in collaboration with other federal departments.)

**Recommendation 9: HUD should consider establishing a “service charter” to empower residents of public and assisted housing to play a larger role in the governance of their communities (medium-term).**

Millions of low-income individuals and families depend on HUD Housing Choice Vouchers, administered by HUD or Public Housing Authorities (PHA), to pay for their housing or live in PHA rental units that are partly subsidized by HUD. But they have limited power to respond to failures by the bureaucracy, local entities, or landlords. HUD should consider how to empower this constituency’s ability to influence its living conditions while also ensuring that high-performing landlords have responsible tenants and, therefore, are willing to house section 8 tenants.

One option would be to establish a “service charter” that sets standards of service for these individuals and families. If HUD or the local entity or landlord fails to meet standards, it would face consequences. A service charter sets standards of service that define levels and quality of services; determines guarantees that promise some redress – compensation, for instance – if the standard is not met or the customer is not satisfied; establishes a complaint system that tracks and analyzes complaints and ensures prompt responses; and creates a customer council that holds HUD accountable for meeting standards. As part of the implementation of this idea, HUD could:

- Use focus groups, panels, and surveys to find out what its constituencies consider to be acceptable standards for HUD or PHA service and to involve frontline employees in setting specific, measurable standards.
- Further educate its constituencies about its services and standards and about their role as responsible tenants – so they know what to expect and demand.
- Establish Constituency Service Councils to which it regularly reports its service performance – and which advise HUD on possible improvements to make in service.
- Regularly publicize its standards, guarantees, redress policies, complaint systems, and results.
- Provide employees who serve these constituencies with financial and other incentives for meeting the standards.

Another potential approach would be to establish a framework in which tenants in both Section 8 and public housing have rights to form and join a “tenants union” that could bargain collectively with housing authorities and landlords in subsidized developments over code conditions, safety, evictions and have a voice in creating and implementing job training, literacy, parenting, and other social programs.

## **C. Structural Redesign**

**Recommendation 10: Establish new offices within HUD to focus attention on core priorities of the Administration and HUD (short-term).**

For example, HUD should establish and staff an Office of Energy Policy to more effectively coordinate the activities of the various HUD offices related to improving the energy-efficiency of HUD-assisted housing and increasing the availability of housing affordable to families with a mix of incomes near public transit and job centers. This Office should also be charged with working to identify ways to improve the energy- and location-efficiency of private-sector housing as well. All of these objectives have both policy development and research dimensions, making the Office for Policy Development and Research a logical place to host the office.

**Recommendation 11: Elevate the importance of inter-agency partnerships to achieve key Administration and HUD priorities (short-term).**

HUD has a long history of participating in inter-agency partnerships, but these partnerships often fail to produce lasting change. If HUD is to exert influence on housing issues that extend beyond the boundaries of the programs it funds, these inter-agency partnerships need to be elevated to the Secretary level and held accountable for results.

- For example, to advance the goals of energy efficiency and energy security, HUD should strengthen and expand its existing partnerships with the Departments of Energy and Transportation related to the intersections of housing, transportation, and energy policy.
- Similarly, HUD should strengthen and expand its partnerships with the Federal Housing Finance Agency, the Treasury Department, and the Federal Deposit Insurance Corporation, and take a leadership role in coordinating the government's response to the foreclosure crisis, including providing more effective mortgage workout counseling.

**Recommendation 12: Initiate a 90-day internal reinvention process to identify options for redesigning the purpose, structure, and operations of HUD's regional field offices (short-term).**

The role of field offices has changed substantially over the years, and the current structure appears to reflect an amalgam of different and potentially conflicting roles. Many practitioners harken back to a time when field office directors had much greater authority to respond to local needs, helping HUD play a more proactive role in local communities. While much of this authority has been lost over the years – apparently due to the understandable desire of HUD HQ office to control the implementation of their programs at the local level – the prior Administration took some partial steps to restore this autonomy, particularly for the new level of Regional Directors. A number of knowledgeable observers recommend that HUD take further steps in the direction of enhancing the role and authority of field and regional directors.

While an in-depth examination of the history and role of HUD field offices is beyond the scope of this report, it is clear that HUD needs to develop a clearer vision for how the field offices will enable better outcomes at the local level and how they interact with the rest of the Department. We recommend that an internal group be established to examine previous models for field offices and efforts such as Community Builders for transforming the interface between local-level players and HUD programs. The group's report on options should be widely circulated outside HUD for comments. The group should package the options and comments into a report to the HUD Secretary. If feasible, it may make sense to delay filling field and regional office directors until the Secretary has decided exactly what role he would like them to play.

**Recommendation 13: To fund the research demonstrations, promising practices identification, program evaluations and other research needed to catalyze change, HUD should develop a reliable funding base for research by setting aside a small portion of the budget of every program (short-term).**

In its 2008 report, *Rebuilding the Research Capacity at HUD*, the National Academy of Sciences argued that HUD needed to expand its funding and capacity to perform high-quality and impactful research. To implement this recommendation, HUD should include a provision in the FY 2010 budget and all subsequent budgets setting aside for research no less than 0.5 percent and no more than 2.0 percent of the amounts appropriated for each HUD program. This is necessary to ensure that a consistent stream of funding is available to evaluate new ideas for improving both HUD programs and state and local housing and community and economic development strategies.

**Recommendation 14: HUD should support and participate in a portfolio of "learning networks" of innovators, local officials, experts, and philanthropic funders focused on critical issues in affordable housing and community development (medium-term).**

The focus of an initial set of learning networks could be:

- Community implementation of a federally supported building energy retrofit initiative.
- Development of urban-suburban and regional partnerships for affordable housing.
- Reinvention of community development corporations.
- Development of a model set of local government standards for participation of low-income individuals and neighborhoods in government decision-making processes.
- Development of regional provider networks for homeless people.

## D. Systems Development

**Recommendation 15: Engage HUD staff and partners in the process of developing structural changes to improve the way HUD does business (short-term).**

HUD is widely perceived as an obstacle, rather than a contributor, to progress at the local level. Many practitioners believe HUD's rigid rules, slow response times, and fragmentation make it much harder and more expensive to build affordable housing and complete projects that anchor community development efforts. A series of structural changes is needed to fix this problem, but, ultimately, the most critical fix is a change in culture catalyzed by strong leadership (top-down), effective engagement with outside constituencies (outside-in), empowerment of staff (bottom-up) to identify needed improvements, and improved communication across HUD offices and between HUD and other agencies (cross-cutting).

To signal the desired change in HUD culture, the Secretary needs to send a powerful message to staff and to stakeholders that HUD will be a strong partner that seeks to "enable" positive outcomes at the local level. A speech or letter is not enough. Instead, we recommend the following:

**Recommendation 15.1: As early as practicable, HUD should launch an intensive time-limited agency-wide process to collect ideas from staff and stakeholders on specific process improvements that HUD could take to streamline approvals, improve utilization of existing programs, and otherwise improve the way it does business.** Input should be collected through meetings in Washington and at each Field Office, as well as electronically. HUD should commit publicly to adopting as many suggestions as possible within 60 days and publishing a complete inventory of input received, as well as a response on whether each item will be adopted and, if not, why not.

As part of this process, we recommend the Secretary call a meeting with all career SES-level officials to lay out his vision for HUD and request their input and support. The Secretary will need their support and they will appreciate his personally reaching out. As you may recall, Secretary Cisneros did this to beneficial effect.

Within one year, HUD should propose new regulations and legislation to address worthy changes that surface during the improvement-suggestion process but need authorization.

**Recommendation 15.2: To strengthen the effectiveness of HUD's grant-making systems, we further recommend the following:**

- *Obtain expert input on how to streamline HUD's major grant-making systems and other programmatic activities (short-term).* Even as HUD engages stakeholders and staff in a short-term, intensive process to identify changes that could make HUD a better partner at the state and local level, it would be useful to bring in experts who can take a more holistic approach to developing recommendations for streamlining HUD's grant-making and other programmatic activities, such as the issuance FHA insurance. Complex, important systems should always be subject to processes for continuous, incremental improvement and periodic reengineering to apply advances in technology and new thinking to the inefficiencies that build up in the systems. HUD should create teams that combine outside experts and inside managers to examine current performance of the systems and to design processes for significantly improving performance.
- *Create more predictability in HUD's grant programs (short-term).* For partners to respond to the incentives that HUD establishes, those incentives need to be relatively stable. Unfortunately, HUD often chooses to use the annual Notice of Funding Availability (NOFA) process to announce changes in incentives – and even sometimes rates agencies on how they performed under these new incentives for the period *prior* to their establishment. While this may seem like a good idea to HUD staff who lack other mechanisms for influencing local behavior, the result is often confusing and counterproductive, as local partners scramble to meet the constantly shifting demands. Ideally, HUD should stop making policy through NOFAs, and instead should use the normal regulatory and guidance process. Whatever the mechanism, HUD needs to announce its priorities and then stick to them long enough for agencies to understand and implement them. While changes are needed, they should be much less frequent, made in consultation with outside stakeholders, and advertised well before they are put into place.

**Recommendation 16: Use performance measurement more effectively as a management tool (short-term).** HUD devotes a considerable amount of time to complying with the requirements of the Government Performance and Results Act, but does not use the performance data it generates as a real management tool. In addition, the

overwhelming number of indicators makes it hard for outsiders to follow. We recommend the following:

**Recommendation 16.1: HUD should create a “dashboard” of a small number of key measures of department performance,** rather than the scores of silo-based indicators listed in the department’s annual performance report. HUD management should be held accountable—through performance management incentives and sanctions—for achieving these dashboard goals.

**Recommendation 16.2 HUD should report regularly and publicly on its performance under the dashboard goals and document the corrections it is making mid-stream to achieve its goals.**

**Recommendation 17: Work with stakeholders and practitioners to identify key HUD program performance data that would help them do their jobs better and work to release those data regularly (short- and medium-terms).**

Examples would include data on the number and location of households being served by HUD (the most recent Picture of Subsidized Housing that supplies this information uses 2000 data) and data on the results of physical inspections of public and assisted housing and the results of customer surveys in the housing voucher program. These data should be released in a form that readily enables local officials and others to understand how the performance of agencies in their community compares with the performance of agencies elsewhere.

As part of this process, HUD should actively mine the administrative records it develops through its programs for useful information on trends and patterns by type of grantee, type of community assisted, etc., and release the results in a format that helps HUD partners and stakeholders understand the impacts of HUD programs and what adjustments might be needed to achieve desired outcomes.

**Recommendation 18: Provide stronger support for local data collection efforts (medium-term).**

To make informed decisions, local governments need to consider both large datasets generated by federal investments – for example, data from the American Community Survey, Decennial Census, and American Housing Survey – as well as locally-generated data, such as data on foreclosures, vacant properties, etc. A number of communities have invested in local data collection and analysis efforts – including 31 cities involved in the Urban Institute’s National Neighborhood Indicators Project. These efforts are paying huge dividends by helping communities target their efforts to stabilize communities impacted by foreclosures. These local data-capacity efforts warrant more support from HUD to ensure they are coordinated, sustained, and expanded to other areas.

**Recommendation 19: Engage stakeholders more closely in developing policy (short- and medium-term).**

HUD’s partners have developed a considerable body of experience in how to use HUD’s programs as part of larger housing and community development strategies. In addition to seeking their input on “process fixes” to make the existing programs work better, HUD should get into the habit of consulting more closely with the full range of stakeholders for input on future policymaking. Specifically:

- HUD should identify specific areas where it would like assistance from stakeholders – for example, to improve the energy-efficiency of HUD-assisted housing or to improve the financing for small multifamily housing developments – and develop a process for systematically reaching out to knowledgeable practitioners and inviting them to work collaboratively with HUD staff to develop appropriate recommendations.
- On each topic that HUD selects for input from knowledgeable practitioners, HUD should also seek input from a broader range of stakeholders through electronic communications and/or through a request for comments in the Federal Register. Wherever possible, HUD should make a practice of seeking this input *before* publishing a proposed regulation, at which time it becomes much harder under applicable law to engage in a substantive conversation about the comments.

**Recommendation 20: Address critical staffing needs (short- and medium-terms).**

HUD suffers from a general staffing shortage that in some cases will impede progress on critical short-term matters. The following are initial recommendations:

- Whatever staffing issues affect the rest of the department, it is essential that they not impede the work of the Secretary. Since the Secretary's office is very small, the Secretary should use the Office of Policy Development and Research as an extension of the Secretary's own capacity. To this end, HUD's chief policy advisor should be located in the Office of Policy Development and Research – either as an Assistant Secretary or Deputy Assistant Secretary for Policy. This will enable the Secretary to tap into experienced staff in the policy development division as well as to shape and use the base of data and research needed to implement the newly devised agenda.<sup>96</sup>
- There is an urgent need to expand staffing and capacity in FHA. FHA's loan volume has shot through the roof, but they are working with a skeletal staff compared with earlier decades when FHA was operating at comparable volume. HUD also needs to develop process and technology changes that can enable it to safely operate FHA at its current scale with a greatly truncated staff.
- HUD should inventory and fill key staff vacancies and develop a more strategic approach to allocating and hiring staff. Having a strong, visible leader like the Secretary-Designate will help with recruitment.
- HUD should continue to place emphasis on urban internship programs that bring in good people at the beginning of their careers to tap their energy and introduce them to a career in housing.

**Recommendation 21: HUD should develop an intern/extern program to facilitate the exchange of ideas between HUD staff and outside practitioners (medium-term).**

HUD staff should be encouraged to pursue externships where they work in the offices of state and local practitioners, and practitioners should be invited to intern at HUD to learn more about how HUD works and to share their experience. HUD has had such programs at various times, and may currently have one, but they warrant greater emphasis.

## **SOME LEADERSHIP REQUIREMENTS FOR TRANSFORMING HUD**

Implementing these or other similarly transformational recommendations during 2009 at HUD will require the agency to take big steps forward. The effort will require sustained personal leadership from the Secretary. This cannot be delegated. The Secretary will have to display passion for the change and faith that change can be achieved, and he will have to craft and deliver the message of change within HUD and to stakeholders and persuade the Congress to support the effort. Just as important, the Secretary will have to model the behaviors of catalytic government—openness, enabling of others, and a laser-focus on results.

(A true results focus will mean that the Secretary should make a public commitment to assessments of HUD's performance and decision-making processes strongly based in evidence—and this sort of potential accountability will make many people inside and outside HUD nervous.)

The Secretary will have to assemble a team of change champions from inside HUD, outside stakeholders, and experts (advisors and consultants) in the process of public sector organizational change to drive the multiple necessary change processes. In short order, the team will have to develop a detailed plan of action, probably covering the second and third years of the Administration, and a plan for mobilizing stakeholders not just to support changes, but to become an active part of making change happen.

The Secretary and his leadership team will have to create an organizational culture in which risk-taking is valued and rewarded; they will have to do this by example. The Secretary must seek input from HUD employees and recognize and reward those who step forward.

In our view, this is what it will take to put HUD “back on the map” in a way that is transformative and sustainable for HUD and those it serves.

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<sup>96</sup> Jack Kemp used this structure to great success and Henry Cisneros also relied heavily upon the Office. Secretary Martinez gave up direct control of PD&R by relocating the chief advisor to the Secretary's Office.