S. HRG. 111–760

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2010

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

H.R. 3288

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2010, AND FOR OTHER PURPOSES

Department of Housing and Urban Development
Department of Transportation
Nondepartmental witnesses

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TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2010

THURSDAY, JUNE 11, 2009

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Bond and Lautenberg.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Good morning. This subcommittee will come to order.

Today, this subcommittee will hear testimony from Secretary Donovan on the Presidents fiscal year 2010 budget request for the Department of Housing and Urban Development, and I want to welcome the Secretary back to our subcommittee today.

HUD's many programs provide the resources and support to help hard-working families achieve home ownership, maintain safe and affordable housing, and access to services that they need.

Today, as our Nation deals with the housing crisis and an economic recession, this discussion takes on an added importance. Foreclosures remain at record levels, fully 32 percent higher than this time last year. Meanwhile, unemployment is approaching 10 percent, its highest rate in 26 years. As we continue to work through this economic crisis, we can expect increasing demand on HUD's housing and community development programs.

So I am pleased that the starting point for this discussion is a budget that proposes substantial investments and innovative approaches that will move our Nation's housing policy forward. The budget proposes resources totaling over $46 billion, a 10 percent increase over the level of funding provided in the fiscal year 2009 omnibus appropriations bill.

For the first time, since the subcommittee assumed oversight of HUD, we are not starting from the position of having to beat back proposals that would drastically cut elderly and disabled housing, community development block grants, and other key programs, and that is a welcome relief.

However, as Congress and the administration work to address the housing crisis and turn this economy around, we need to do more than maintain the status quo. HUD must demonstrate leadership in developing solutions to stem the current foreclosure crisis, strengthen the safety net for vulnerable families who are hit by this recession, and preventing future housing disasters. I am pleased that to date, Mr. Secretary, you have shown the kind of leadership that this Department really needs.

In February, Congress moved swiftly to pass the American Recovery and Reinvestment Act which provided the investment that was necessary to help get our economy moving again. Just a week after that bill was signed into law, Secretary Donovan worked to ensure that HUD allocated nearly $10 billion, or 75 percent of the funding it received under the act. So I want to applaud your efforts and the staff at HUD for working to allocate that funding so quickly.

These dollars are making a difference in my State. In Yakima, Washington, funds appropriated for the public housing capital fund are being put to use to rehabilitate housing and are generating much needed job opportunities. In Spokane, millions in funding has gone to eliminate dangerous lead-based paint from low-income homes and protect young children from lead poisoning. And I know that over the summer, as Recovery Act spending is accelerated, we are going to see further investments in providing safe and affordable housing throughout the country.

But despite the positive signs that Recovery Act investments are paying off, there is still significant work to do. As the Secretary well knows, problems in the housing market persist. In Pierce and Clark Counties in my home State, homes continue to remain on the market for 12 to 14 months. So it is really critical not just for the families facing foreclosure, but to communities across the country that we find new ways to boost the housing market.

To date, the HOPE for Homeowners program that was designed to help families in danger of foreclosure has failed to make the progress that we need. While originally projected to help over 400,000 families, it has served fewer than 1,000 due to investors' reluctance to participate. Recently Congress passed legislation aimed at giving HUD additional tools to make its program more effective. So I look forward to hearing from the Secretary today how these programs can better assist our families.

While I believe that the FHA has a critical role to play in providing affordable housing options for our hard-working families, I remain focused on ensuring the solvency of the Mutual Mortgage Insurance Fund and protecting the interests of our taxpayers. Mr. Secretary, you were here earlier this year and we had a good discussion on the FHA, but that was before we had the President's budget. I am pleased that the FHA's regular sale and refinance program, the lion's share of the MMI Fund portfolio, does not require a positive credit subsidy. The fund's reverse mortgage, or HECM program, requires an appropriation of nearly $800 million. So today, I want to continue the important discussion about what the appropriate role for the FHA to play is as we navigate this housing crisis.

As I mentioned, the President's budget includes important increases. The funding levels requested for section 8 tenant-based and project-based rental assistance programs represent a total increase of nearly $3 billion over the levels provided in the 2009 omnibus bill. These funding levels demonstrate a real commitment to the more than 3 million elderly, disabled, and low-income tenants these programs serve, and that is a commitment I share.

In addition to increases in important programs, such as the $550 million increase to the Community Development Block program and an increase of over $115 million for homeless assistance grants, the budget also proposes several new initiatives. They include the Sustainable Communities Initiative, which is a joint effort with the Department of Transportation to facilitate integrated housing and transportation planning, and the Choice Neighborhoods Initiative, the Department's vision for broadening and expanding HOPE VI program in integrating schools in a neighborhood revitalization effort.

I do have some questions about the details of those programs, but I want to commend the Department's efforts to propose bold and ambitious ideas for rebuilding our communities in the Nation.

Finally, I will have some questions for you, Mr. Secretary, on your efforts to remake HUD into an effective 21st century agency through the transformation initiative. When we first met, we talked about the leadership necessary to improve and strengthen HUD and its programs. So I support your efforts to improve the Department's operations. But I am concerned about the lack of detail in this particular proposal, as well as its potential cost during the first year. So I look forward to having a productive conversation about ways that we can achieve our shared goal of creating a stronger and more efficient HUD while maintaining this subcommittee's oversight role.

As I said before, in this recession, HUD is at the center of the storm. With foreclosure rates skyrocketing and affordable housing options increasingly scarce and the dream of home ownership at risk for our working families, the budget decisions and leadership at HUD are going to make or break it for those most affected by this recession. That is why today's hearing and discussion and working in partnership to promote responsible and sustaining housing policies is so critical.

So with that, I will turn it over to my ranking member, Senator Bond, who has been a great partner in working with me on these critical issues.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair, and thank you. It is a real pleasure to work with you and to work with the Secretary.

We welcome you, Mr. Secretary, for appearing again. We have had very many constructive discussions, which I appreciate, and certainly no one can deny that the Secretary is passionate about housing and community development and is working hard to make the Department, as you indicated, a very tough but necessary task.

The Secretary has also been a key player for the administration on tackling the ongoing mortgage crisis. With your knowledge, skills, and experience in the private and public sectors, it is important to get you out in the lead on this issue.

I understand that one of the steps you have taken to address future housing crises is rebalancing Federal housing policy to place greater focus on affordable rental housing. As you know from New York City, there is a severe lack of decent affordable rental housing in our Nation, and unfortunately, the Government's housing policy over the past two administrations failed to correct the problem and ultimately contributed to the subprime crisis by pushing home ownership on people who could not afford the burdens of home ownership, thus making the American dream the American nightmare and causing a nightmare in our financial system. Affordable rental housing was short-changed. That was a mistake and we appreciate your efforts to correct the course.

The Federal Government has taken some extraordinary steps to address the mortgage crisis and the credit crisis through the Federal Reserve, Treasury, FDIC, and HUD. Despite these efforts, Americans across the Nation and in my State of Missouri continue to struggle to make their mortgage payments. Housing prices continue to fall. Foreclosures remain unabated. The rate of foreclosures has gone down, but it has come down from a totally unacceptable rate to a very unacceptable rate. With the country shedding hundreds of thousands of jobs every month, the mortgage crisis has spread from subprime to prime or traditional mortgages, hurting our economic recovery.

Recent data that I have seen indicates that prime mortgage foreclosures are accelerating and rising in States where unemployment is growing. We know that housing started the economic crisis, which in turn resulted in massive job losses. It now appears that job losses are contributing to the troubles in the housing sector. I guess economists call this a negative feedback loop. Whatever it is, it is very, very unfortunate.

Adding to the problem, rising mortgage interest rates threaten foreclosure mitigation efforts, and our economy has many homeowners unable to refinance their loans into ones with payments they can afford. In other words, we are definitely not out of the woods yet.

I raised with Treasury Secretary Geithner 2 days ago some of the positive economic signs may be misleading, and I am concerned that we may be seeing what they call on Wall Street a dead cat bounce.

These challenges factor into my view that health insolvency of the Federal Housing Administration, or FHA, remains at high risk. You and I have discussed this concern many times, including back in early April with the hearing on the FHA's role. Nevertheless, I think it is important to repeat, reemphasize, and discuss these concerns.

Specifically, FHA has been exhibiting troubling signs as default rates have risen to the highest rates in several years. Capital reserves have substantially declined, and the foreclosures have accelerated. Perhaps the most visible and troubling sign is the significant increase in foreclosures since we know the Government is not a good landlord. When the Government takes over properties, it typically leads to the instability of communities and neighboring homes. Sadly, there have already been reports of rising FHA defaults and foreclosures in areas already victimized by subprime lending, which are making problems much worse for the families and for the entire communities in which they live.

Further, FHA remains vulnerable to fraud. It has been a long-term problem. It has been well documented by the HUD Inspector General. It has been a great area of concern to this subcommittee. Senator Murray and I have worried about it, and when Senator Mikulski and I had this portfolio, we worried about it. This is not a new worry, but it is one which is, I think, rising to the top.

You inherited the FHA problems, and to your credit, you have acknowledged them and taken steps to address them. But despite your best efforts, I fear the agency may be swimming upstream as fraudulent activity in the mortgage industry is on the rise. We are hearing more about loan originators who have caused problems in the subprime area migrating to FHA as business continues to expand. Regrettably Congress and the White House have placed more demands on the agency that is already understaffed, does not have the proper information technology, the skills or proper controls in place.

That is why I continue to believe that FHA is a powder keg, and a mixture of ongoing and troubling problems in the housing market, FHA's internal problems, rising fraudulent activity, and increasing political demands is an explosive combination. If changes do not occur, the FHA powder keg could explode, causing even more harm to taxpayers, communities, the economy, and homeowners. In the current tenuous economic environment, that is a huge risk to be taking.

A few other areas of strong interest to me, as you may know, I am a longtime champion of HOPE VI, and I appreciate your acknowledgement in your testimony. I am very interested in working with you and my colleagues like Senator Murray, as well as Senator Mikulski, on the program's future.

You have proposed to expand HOPE VI beyond public housing through a new Choice Neighborhoods initiative. Since HOPE VI got its start in St. Louis a number of years ago, we have seen the program revitalize communities and families from the worst public housing projects. Communities that were once a magnet for crime and poverty are now catalysts for development. Senators Murray, Mikulski, and I look forward to more discussions with you and your staff on developing this proposal. It is critical we continue to work on innovative initiatives to tackle the cycle of poverty and distress that afflict too many communities.

On homelessness, I thank you for backing the permanent supportive housing approach that was included in the recently enacted HEARTH Act. The permanent supportive housing approach, which has been initiated through this subcommittee on appropriations, has been embraced by providers, local community leaders, and government officials as they have seen homelessness reduced. I have seen it in Missouri, and I believe the number is reflected across the Nation. These positive results clearly demonstrate that the tragedy of homelessness is no longer a hopeless situation when strong local coordination and permanent supportive housing is utilized.

Finally, investing in rural communities also is important to me. I continue to hear from many constituents who believe that rural areas are not receiving as much attention and resources as urban areas. Urban areas do not have a monopoly on economic development and housing needs. That is why a number of years ago, I created the Rural Housing and Economic Development program. I am pleased the administration is not eliminating this program but is aiming to augment its capacity to assist rural needs through a new Rural Innovation Fund. I look forward to working with you and learning more about the Rural Innovation Fund.

I thank you, Mr. Secretary, for your hard work and willingness to work with this subcommittee. We want you to succeed and we look forward to continuing to work with you on a challenge that is a significant one, but one we cannot afford to lose.

Thank you, Madam Chair.

Senator MURRAY. Thank you very much, Senator.

Senator Lautenberg.

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Thanks, Madam Chairman.

Welcome, Secretary Donovan. We are seeing each other, as you are with other members, on a more frequent basis. That tells you something about the view that we all have on what kind of housing availability there is in the country. When we look at it, in these days of job dislocation, the pain is felt even worse regarding housing availability. You have got a big job and I know that you are working hard at it. Unfortunately, there is a lot of competition for funding, and this is one place that really deserves as much as we can do.

Unemployment in New Jersey and across the country has hit record levels. Families are finding it increasingly harder to pay their bills, save for the future and afford their homes. Instead of realizing the American dream of home ownership, more than 60,000 households in New Jersey could see their homes taken away this year.

In these difficult times, the Department of Housing and Urban Development has a more important job than ever, has a larger influence, I think on our living standard than it has in decades. President Obama and the Secretary deserve praise for acting quickly on these issues.

The economic recovery law, for example, included a temporary increase in the Federal Housing Administration's maximum loan limit in high cost metropolitan areas to help more home buyers access FHA loans. The residents of 12 of our 21 counties in New Jersey are benefitting from this change.

But we have more work to do to help both homeowners and renters to be able to keep a safe and affordable place to call home. Many homeowners, as we already heard about here, owe more on their mortgages than the home is worth, and they need help at refinancing, gaining equity in their home, to get their debt under control. And many renters cannot find a place where they can afford the monthly bill.

In addition, we need to make sure that our Nation's public housing authorities have the funds necessary with which to operate and the resources to keep their properties safe. Public housing is home to more than 1.3 million low-income families nationwide. More than 50 percent of these households are headed by seniors or people with disabilities. New Jersey alone has more than 47,000 public housing units, and while the HUD budget request shows a commitment to helping all Americans find and stay in quality homes, it also cuts some critical programs, particularly in the area of affordable housing.

So, Mr. Secretary, we look forward to hearing from you and working with you to try and solve these problems that are so deeply ingrained into the structure. But we have got to find a way out. Thank you.

Thank you, Madam Chairman.

Senator MURRAY. Thank you very much, Senator.

Mr. Secretary, we will turn to you for your opening remarks.

STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you very much, Chairwoman Murray, Ranking Member Bond, and members of the subcommittee. Thank you for this opportunity to discuss the U.S. Department of Housing and Urban Development's 2010 budget proposal.

I want to thank the subcommittee for its work as a champion for HUD's budget this past decade, including its recent extraordinary work securing almost $14 billion for housing and urban development programs as part of the Recovery Act. As you so kindly recognized, Senator Murray, we are moving very quickly to get this money out, and I appreciate your recognition of that. These funds are already at work helping families find and remain in affordable housing, putting people to work in green jobs, and stabilizing neighborhoods.

The 2010 budget we have provided for your consideration will move us forward. With your support, what we have proposed would ensure mortgages for up to 2.25 million families with the Federal Housing Administration; provide housing counseling to 571,000 households; fund rental assistance for over 4.5 million households; expand the supply of housing affordable to low-income families by 306,000 units; and increase the capacity to serve homeless individuals by almost 15 percent.

As you know, the Obama administration has already begun to comprehensively address the housing and economic crises, and this budget would advance that effort further. Already on loan modifications, which you have mentioned this morning, and in our efforts to stem the foreclosure crisis, extensive efforts have begun to take hold. Almost 80 percent of all loans in the country are now covered by our modification and refinancing plan, Making Home Affordable, and just last week 30,000 modification offers were given to homeowners around the country, bringing the total to over 150,000 modification offers thus far. However, we do have, as you recognized, further work to do around modifications and stemming the foreclosure crisis, and I look forward to working with the committee to make sure that we do that.

This budget requests the authority to complement those efforts so that FHA and Ginnie Mae can match their expanded roles, requesting loan guarantee levels of $400 billion for FHA and $500 billion for Ginnie Mae. In 2010, HUD is projecting that FHA will generate nearly $1 billion more income than will be paid out in losses over the life of the loans. That is, we project our 2010 business to be in the black.

We must also have better informed housing consumers, and this budget requests $100 million for HUD's housing counseling program, a $35 million increase over 2009.

Senator Murray, building off your leadership, HUD is requesting funding to better protect consumers and taxpayers against those who would seek to commit mortgage fraud. This budget has over $37 million to combat mortgage fraud and predatory practices, including improving FHA's data systems, as Senator Bond talked about; quickly and effectively implementing the new Secure and Fair Enforcement Mortgage Licensing Act, and enhanced Real Estate Settlement Procedures Act requirements; and increased funding for the Fair Housing Initiatives Program and Fair Housing Assistance Program.

The second objective of the 2010 budget is to restore a balanced housing policy. This budget proposal returns the Federal Government to its leadership role as a catalyst for expanding the availability of decent and affordable rental housing, as you, Senator Bond, mentioned. The President is proposing several key initiatives, including $1 billion to capitalize the national Housing Trust Fund; full funding of the public housing operating fund; 12 months of funding for project-based, rental assistance; a $117 million increase in funding for homeless programs; and $1.8 billion increase in calendar year funding for the voucher program that will preserve affordable housing for more than 2 million households and give HUD and housing authorities new tools to more effectively allocate budget authority in order to serve the maximum number of households with the funding provided.

The third objective of the 2010 budget is to invest in urban and rural communities. This involves full funding for CDBG at $4.45 billion, a $550 million increase over 2009; creation of two new competitive programs, the University Community Fund and the Rural Innovation Fund; and creating a $250 million Choice Neighborhoods program, as you have discussed.

Choice Neighborhoods builds on the vision of Senators Mikulski and Bond when HOPE VI was created 15 years ago, and our experience with what has been most successful in that program. As Senator Mikulski noted with the introduction of a bill to reauthorize HOPE VI, "Where HOPE VI has been most successful, it has transformed communities and transformed the lives of people living in public housing." Choice Neighborhoods expands on the best practices of HOPE VI to encompass not just public housing, but also privately owned assisted housing and the surrounding neighborhoods of extreme poverty. Choice Neighborhoods will create viable neighborhoods with decent and affordable housing, improved access to jobs, better schools, and increased public transportation opportunities.

The fourth objective is to drive energy efficient housing and sustainable, inclusive growth. The proposed $150 million Sustainable Communities Initiative is intended to catalyze a linkage between housing and transportation planning and support development of new land use and zoning plans. Through the FHA, the proposed $100 million Energy Innovation Fund would support several pilot efforts in innovative communities to identify new approaches for financing energy improvements in new and existing housing.

Led by Deputy Secretary Ron Sims, we are proposing the new Office of Sustainable Housing and Communities that will expand our relationships with our Federal, State, and local partners and coordinate HUD's programs to catalyze both sustainable planning and greater energy efficiency.

The final objective of the budget is to transform the way HUD does business. We need better data and research about our existing programs and the housing market in general. We need to be forward-thinking and use demonstrations to test ideas on how to transform our existing programs so that they serve more people with the same or less money. We need the flexibility to target technical assistance where it is needed most, and we must transform HUD's data systems, procurement, and hiring practices to match our housing and community development challenges going forward.

In sum, HUD's budget request is intended to result in better programs that serve more people with fewer resources. In particular, we propose a transformation initiative that would permit HUD to set aside up to 1 percent of its total funding to be used for four activities: next-generation technology; demonstrations; research; and technical assistance. As proposed, no more than 50 percent and no less than 10 percent would be spent on each activity.

I truly appreciate the time of the committee and look forward to your questions. Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Chairwoman Murray, Ranking Member Bond, and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the U.S. Department of Housing and Urban Development's (HUD) 2010 budget proposal.

I want to thank the subcommittee for its work as a champion for HUD's budget this past decade, including its recent extraordinary work securing over $13 billion for housing and urban development programs as part of the Recovery Act. Those funds are helping families remain in affordable housing, putting people to work in green jobs, and stabilizing neighborhoods.

HUD's 2010 budget proposal responds to the current crisis in our housing markets, addresses the continuing affordable housing needs for millions of families, and reestablishes HUD's partnerships with struggling cities, counties, and States. But it goes beyond that, it is a forward thinking budget with new ideas for driving energy efficient housing, sustainable, inclusive growth, and revitalization of neighborhoods of extreme poverty. This budget also asks the Congress to invest systematically and predictably in the full-scale transformation of the Department through targeted investment in activities and reforms funded by the proposed Transformation Initiative.

The 2010 budget we have provided for your consideration will move us forward. With your support, what we have proposed would:

—Insure mortgages for 2.24 million families with the Federal Housing Administration;
—Provide housing counseling to 571,000 households;
—Fund rental assistance for over 4.5 million households;
—Expand the supply of housing affordable to low-income families by 306,000 units; and

—Increase the capacity to serve homeless individuals by almost 15 percent.

How can we achieve these goals?

As you know we have already begun to address the housing and economic crises. The Making Home Affordable Program and Congress' recent passage of the Helping Families Save Their Homes Act are critical tools for preventing foreclosure; and as I noted in my testimony to this subcommittee on April 2, FHA is playing an important role at ensuring that credit remains available to million's of households. Its market share has risen from 2 percent in 2006 to 24 percent at the end of 2008. This 2010 budget requests the authority needed so that FHA and GNMA can match their expanded roles. This budget asks for loan guarantee levels of $400 billion for FHA and $500 billion for GNMA. In 2010, HUD is projecting that FHA will generate nearly a billion dollars more income than will be paid out in losses over the life of the loans. That is, we project our 2010 business to be in the black.

We also want housing consumers to benefit from their housing choices. One lesson from the events in the housing market of the last few years is that home buyers and homeowners need education and counseling both before and after they get a loan. Most important, when borrowers start having a problem paying, they need advocates for their interests early on in the process. This budget requests $100 million for HUD's housing counseling program, a $35 million increase over 2009.

Senator Murray, building off of your leadership, HUD is requesting funding so that it can use its programs to better protect consumers and taxpayers against those who would seek to commit mortgage fraud. This budget has over $37 million in initiatives to combat mortgage fraud and predatory practices, including:

—Improving FHAs data systems;

—Quickly and effectively implementing the new Secure and Fair Enforcement Mortgage Licensing Act (SAFE) and enhanced Real Estate Settlement Procedures Act (RESPA) requirements; and

—Increased funding for the Fair Housing Initiatives Program (FHIP) and Fair Housing Assistance Program (FHAP).

The second objective of the 2010 budget is to restore a balanced housing policy. This budget proposal returns the Federal Government to its leadership role as a catalyst for expanding the availability of decent and affordable rental housing. In the first quarter of 2009, 33 percent of all Americans were renters. Most people in this room have at some times in their life been a renter, and 66 percent of households in poverty are renters. To again take a leadership role in ensuring extremely low and very low-income households have quality affordable housing in safe and opportunity rich neighborhoods, the President is proposing several key initiatives, including:

—$1 billion to capitalize the Housing Trust Fund;

—Full funding of the public housing operating fund;

—Twelve months of funding for Project Based Rental Assistance;

—A $117 million increase in funding for homeless programs; and

—A $1.8 billion increase in calendar year funding for the voucher program that will preserve affordable housing for more than 2 million households and give HUD and housing authorities new tools to more efficiently allocate budget authority in order to serve the maximum number of households within the funding provided.

The third objective of the 2010 budget is to Invest in Urban and Rural Communities. This involves:

—Full funding for CDBG at $4.45 billion, a $550 million increase over 2009, and a legislative proposal to update this enduring and valuable program so that it more efficiently and effectively addresses the community development needs of the 21st century, including a provision to hold harmless funding losses that might result due to a formula change;

—Creation of two new competitive programs, the University Community Fund and the Rural Innovation Fund, that would build around key institutional assets and test new ideas for addressing the problems in distressed neighborhoods and rural communities; and

—Creating a $250 million Choice Neighborhoods program. Choice Neighborhoods builds on the vision of Senators Mikulski and Bond when HOPE VI was created 15 years ago and our experience with what has been most successful in the program. As Senator Mikulski noted with the introduction of a bill to reauthorize HOPE VI, "Where HOPE VI has been most successful, it has transformed communities and transformed the lives of people living in public housing." Choice Neighborhoods expands on the best practices of HOPE VI to encompass not just public housing, but also privately owned assisted housing and the surrounding neighborhoods of extreme poverty. Choice Neighborhoods will create viable neighborhoods with decent and affordable housing, improved access to jobs, better schools, and increased public transportation opportunities.

The fourth objective is to Drive Energy Efficient Housing and Sustainable, Inclusive Growth. Housing and transportation costs now average a combined 60 percent of income for working families in metropolitan areas. Residential buildings account for 20 percent of carbon emissions and transportation counts for one-third of carbon emissions. Designing communities so people have the option to drive less, have shorter commutes to work, shopping, and recreation, as well as building and retrofitting homes to make them more energy efficient is not just good for the environment, it also improves quality of life.

The proposed $150 million Sustainable Communities Initiative is intended to catalyze a linkage between housing and transportation planning and support development of new land use and zoning plans that think forward to long-term sustainable communities. We are already moving forward working with the Department of Transportation and the Environmental Protection Agency to develop common principals for livable communities. These partnerships are intended to maximize all of our resources so the sum of our efforts is truly greater than the whole.

Energy efficient housing is more affordable housing, yet our financing tools have thus far largely failed to capture this obvious trade-off between housing cost and energy efficiency. The proposed $100 million Energy Innovation Fund would support several pilot efforts within FHA and in a few innovative communities in order to identify strategies that can catalyze new approaches for financing energy improvements in new and existing housing.

Led by Deputy Secretary Ron Sims, we are proposing the new Office of Sustainable Housing and Communities that will expand our relationships with our Federal, State, and local partners and coordinate HUD's programs to catalyze both sustainable planning and greater energy efficiency.

The fifth objective of this budget is to Transform the Way HUD Does Business. We are asking for flexibility to transform the agency. This housing and economic crisis has demonstrated huge weaknesses in our Nation's ability to deal with changes in how our housing markets operate and how we address the housing needs of our most vulnerable citizens.

We need better data and research about our existing programs and the housing market in general; we need to be forward thinking and use demonstrations to test ideas on how to transform our existing programs so that they serve more people with the same or less money; we need the flexibility to target technical assistance; and we must transform HUD's data systems, procurement, and hiring practices to match our housing and community development challenges going forward. In sum, HUD's transformation request is intended to result in better programs that serve more people with fewer resources.

A recent study conducted at the request of Congress by the National Academy of Sciences on HUD's research suggested that a dedicated set-aside of funding was needed to support research and demonstrations at HUD. We are requesting that the Congress accept this idea and go one step further, and permit HUD to set-aside up to 1 percent of its total funding, approximately $434 million, toward transformation. These funds would be used for four activities: Next Generation Technology; Demonstrations; Research; and Technical Assistance. As proposed, no more than 50 percent and no less than 10 percent would be spent on each activity.

The projects to which these funds would be committed will be defined through a strategic planning process we are undertaking right now, a process we want to engage you in as well. This process asks the questions: What should our housing and urban development programs look like 6 years from now? How can HUD manage its existing programs today more efficiently and effectively?

While we are beginning this strategic planning process right now with a target of October 2009 for a draft strategy, there are some projects that clearly need to be done now. Activities we would undertake include:

—Modernizing the FHA data systems to speed up processing and reduce risk;
—Transforming and integrating the data systems for the Housing Choice Voucher and multifamily assisted housing programs;
—Designing and developing the IT systems needed for implementation of the HEARTH Act;
—Providing technical assistance that recognizes that in the real world HUD's programs work together and often have common goals, such as improving energy efficiency, and thus need TA that is cross-program;
—Providing program specific technical assistance for such programs as CDBG, HOME, homeless programs, Native American Housing programs, HOPE VI as well as new programs such as Choice Neighborhoods and the Rural Innovation Fund;

—Conducting research that addresses short-term need for information; and

—Designing and implementing forward-thinking demonstrations that will improve the effectiveness of and reduce costs in existing programs, as well as test next-generation ideas. In 2010, Transformation funds would be used to support the pre-purchase counseling demonstration mandated in HERA. This demonstration would test how effective different types of counseling are at reducing default risk for buyers with low down payments. We would also conduct impact studies of rent-reform that build off ideas initiated but not yet studied as part of the Moving-To-Work demonstration. Both of these demonstrations would test ideas that could provide significant cost savings to the Federal Government as well as potential benefits for families.

We will engage the subcommittee in the development of the plan that specifies the research, demonstration, TA, and technology investments. HUD is committed to work with the Congress to make grantees more accountable for their efficient and effective use of these funds.

HUD is establishing a new Office of Strategic Planning and Management to implement the strategic planning process, wisely allocate Transformation Initiative resources, and oversee the overhaul of HUD's hiring and procurement systems. The budget also proposes a new Chief Operating Officer to guide the internal transformation of HUD's operations.

I truly appreciate the time of the subcommittee and look forward to your questions.

HOME PRICE STABILIZATION

Senator MURRAY. Thank you very much, Mr. Secretary, and we will now move to the questions.

As I mentioned in my opening statement, HUD's budget request comes in the context of a lot of ongoing challenges in the housing and in the economic crisis. Increasingly we are seeing our home buyers and our lenders turning to FHA in the absence of available credit in the private market. You pointed out in your testimony that FHA's market share has increased dramatically over the last 2 years.

The President's budget is asking us to increase the FHA annual loan volume guarantee limit to $400 billion. That is an increase of $85 billion. That request seems to imply that the FHA's market share is going to continue to grow in the next year. Does that reflect a kind of pessimism that home prices and credit markets are going to begin to stabilize in the coming fiscal year?

Secretary DONOVAN. First of all, I want to be very clear. Based on the latest trends that we have seen, where we do see a stabilization in housing prices in many markets and in some cases increases in volume of sales transactions particularly in the hardest hit markets, we do continue to believe that we are on track for a return of the housing market to positive growth this year and hopefully even by the end of the summer. So it is not reflective of pessimism.

The most specific thing that I think is affecting the continued high volume of FHA is the lack of mortgage insurance available in the market. That is the primary factor that is driving the continued high volume of FHA business. As the housing market recovers, we believe that it will take some time for mortgage insurers to build back up their financial strength and to be able to allow other lenders to fully enter the market.

But I want to be clear. Our interest is not in having FHA be the sole or one of the primary sources of financing. Our interest is getting this housing market back on track, and we welcome and will work with the private sector to get back into lending as quickly as possible.

Senator MURRAY. Let me ask about the HOPE for Homeowners foreclosure prevention initiative. That was originally expected to serve about 400,000 families. As I mentioned, there are less than 1,000 applications. Congress recently took actions to modify that program to make it more effective. With these changes, do you think that FHA will now reach its goal of assisting 400,000 families?

Secretary DONOVAN. Two things I would say about that, Senator. First of all, as you rightly recognize, there has been almost no use of HOPE for Homeowners, just over 50 loans closed at this point in the program. With the recent changes signed by the President and passed by Congress, I do believe we will have significant improvements in the program. We hope to have the revised program up and running in the next couple months, and I do think we will see significantly increased volume.

I think it is unlikely that we reach the 400,000 number, and the reason for that is that when the HOPE for Homeowners program was created, it was the primary alternative for helping families at risk of foreclosure. As I discussed earlier, as you know, we have since introduced the Making Home Affordable plan, which has reached a scale, as I mentioned in my testimony, of over 150,000 modifications just in the first few weeks, and we expect it to continue expanding substantially. And so with these other alternatives, I think it is unlikely that HOPE for Homeowners reaches the 400,000, but obviously, we will keep the committee informed as we do begin to see volume pick up once the changes are introduced.

FHA CONCERNS

Senator MURRAY. Okay, I appreciate that.

I have long raised concerns about the solvency of the FHA's MMI Fund and I want to make sure that our Nation's taxpayers are not exposed to the elevated risk of re-default of these already troubled mortgages. If HOPE for Homeowners or some of these other foreclosure prevention activities do succeed in bringing more distressed borrowers into the FHA's programs, what safeguards are there to ensure that these foreclosure prevention measures do not destabilize the FHA?

Secretary DONOVAN. So, two things about that. First of all, thanks to the Congress and the changes that you have made, we have been able to and do project a surplus for the main MMI program and for FHA overall in this budget. There are two primary things that are driving that that I think are important to emphasize.

Congress' swift action to ban the seller-funded down payment program alone, our estimates are, will improve the performance of just 2010 loans by $2.5 billion. So that alone has been a substantial help to improve the health of the fund.

Second, what we have also seen is that with the credit crisis that has happened in the rest of the market, our average credit scores within FHA have gone up by over 50 points over the past year. So we are seeing, despite the troubles in the market, an improved borrower profile across the board in FHA, a substantial, substantial improvement that will help to keep the overall fund healthy, we believe, for the 2010 loans.

Specifically on HOPE for Homeowners, two things I would say. One is that there is a clear requirement for HOPE for Homeowners. This is one of the reasons why I do not think the volume will get to the 400,000. It requires a write-down of the principal to a level that is sustainable on today's value, not on original value, but on today's value. With hopefully being at the trough as the program ramps up, we should see long-term housing growth for those that will make those safer loans.

The other important point is that Congress wisely set aside $300 billion at Treasury to fund any losses from the HOPE for Homeowners program. So any losses there do not affect the broader health of the MMI Fund. They are isolated to this fund that has been established at Treasury and should not affect the overall——

Senator MURRAY. What about the reverse mortgage, HECM program, for seniors to reverse mortgage? For the first time, the budget is seeking a positive credit subsidy of $798 million for that. Does that positive subsidy requirement portion of the MMI Fund portfolio raise concerns for you about the overall solvency of the MMI Fund?

Secretary DONOVAN. It does not on the overall solvency. First of all, HECM is a very small—very small—portion of the overall set of programs, and even with that cost, our estimate is that the loans made in 2010 will show a surplus of almost $1 billion.

Specifically on HECM, I would say two things. First is we have tried in this budget across the board to be as clear and direct and honest as possible about what we see going forward. The HECM program is far more sensitive than traditional loan products. It is much like an annuity, far more sensitive to house values, and long-term house price growth. We have been, I think, relatively conservative in the budget in projecting that for the HECM program. So that is the first thing.

The second I would say is we do have options that I would be happy to discuss with you as we work through the discussions on the budget for changes to the HECM program.

Senator MURRAY. So some tools to make sure you have got some control on it?

Secretary DONOVAN. Yes. We have not chosen to raise premiums, given the stress that seniors are under right now, but there are premiums, as well as loan-to-value and other factors that we can make changes on that would eliminate that need for the costs. Those are, obviously, choices about how many seniors we want to be able to help versus the cost in the program, and I think it is important that we have discussions with the committee about that to make decisions.

Senator MURRAY. Good. Maybe you can get back to us on that after the hearing and we can talk about that. I appreciate it.

Secretary DONOVAN. Absolutely.

Senator MURRAY. Senator Bond.

FHA SOLVENCY

Senator BOND. Thank you very much, Madam Chair.

We are trying to get some numbers here, and it looks like our 302(b) allocation, which has just come down today, is not going to support the HUD request. When you take out the renewals, it is about $1.5 billion over the 2009 enacted level. So we are going to have to do a lot of work in HUD and transportation.

Speaking of the FHA problems, again, it was called to my attention some research done by a New Jersey-based financial data firm, SMR, and they gave St. Louis the No. 1 place for FHA lending. The dollar volume from 2008 has quadrupled from $719 million in 2007 to $2.9 billion in 2008, and the analysis is they are kind of the last man standing in the subprime space. They are refinancing a lot of people who got subprime mortgages from private lenders.

The analyst goes on to say the Federal Government might just step back and say what have we gotten ourselves into. Here is the point that concerns us. "Whenever you see a lender ramping up as quickly, there are often some mistakes made. When you suddenly explode like FHA has, that's something to watch for."

While you came up with a mildly optimistic $1.7 billion revenue generated by FHA on a book of business of $400 billion, during our FHA hearing in April, the HUD Inspector General responded to one of my questions on the need for taxpayer bailout by saying, "Based on the numbers we're seeing, I think it's going in the wrong direction." And CBO projects a zero credit subsidy rate on FHA programs.

So we are very much concerned about it, and is there anything that you are doing or can do to mitigate the possible need for additional funds to compensate for FHA losses? And if the economy continues to deteriorate—and I know one of the assumptions you built in was low interest rates, but it looks like the markets and foreign governments are responding to our fiscal policy by driving up interest rates. So we have got another collision coming.

How confident are you that you will not have to raise premiums or come to the taxpayer for assistance?

Secretary DONOVAN. First of all, Senator Bond, we have done fairly extensive analysis of where the fund is today. Current projections, not just for 2010, which are contained in the budget, but for all FHA's current book of business to look at the reserves, and while it is too early to say for sure where we will end up in the re-estimate this summer, we think there is a better than even chance that we will stay above the 2 percent reserve threshold in terms of that analysis. So that suggests not just for the 2010 business but overall for the portfolio that we are more than likely to stay out of a broader need for any taxpayer funding.

Second of all, I do want to emphasize that while I have reported on some of the positive trends, you talk, I think rightly so, about the need to enhance FHA's fraud detection. There is a range of things that we need to do, and I couldn't agree with you more on that. And we are moving in that direction.

We have established and sent out SWAT teams to lenders where we see early evidence of defaults. We have asked for and received, thanks to the Congress, increased authority to go after bad apples. One of the problems that we have had is that we have been able to debar companies, but principals have been able to change their stripes, reestablish themselves in new companies, and we did not have the ability to bar them until legislation signed by the President just a few weeks ago. We are implementing that now.

And one of the key things that we want to do with this transformation initiative, the single biggest usage of funding from that in our plans is to enhance FHA's systems. I cannot stress enough that a systematic approach to fraud detection is absolutely the direction that we need to go. I have detailed in my written testimony much more about the kinds of initiatives that we would want to pursue with the transformation initiative, but that is the single most important that we want to pursue.

Senator BOND. We agree with you on that, and I think I mentioned previously the U.S. Attorney for the Eastern District of Missouri, who has been aggressively prosecuting these fraud cases. There are some bad apples that really need to be put out of the business and in my view put out of circulation. That is an added problem we do not need.

Secretary DONOVAN. If I could just add, thanks to you we also, in the bill that I just talked about that gave the FHA enhanced capacity, have significantly increased resources not just with Ken Donohue, who I have been working very closely with at HUD, our Inspector General, but also at the Department of Justice, the Federal Trade Commission, increased authorities and increased funding to go after exactly this kind of fraud.

SELLER SPEC FINANCING

Senator BOND. Let me move on. You mentioned the importance of getting rid of the seller-financed down payment. I have long warned about the no-down-payment option. There is another item that I have noticed. In Canada, mortgage loans are recourse loans, and they have not experienced anything like the same type of problem experienced in the United States.

Going forward, is this something that—it is controversial but we see what happens when people can buy a second home on spec and walk away from it. Is it worth considering whether we need to change the system and make mortgage loans recourse loans?

Secretary DONOVAN. This is a proposal that I think is worth some consideration as part of a much broader look that we are going to do at the mortgage market. Obviously, our regulatory structures have failed over the last few years to contain this kind of lending process.

I think the concern that I would raise is that at a time when the markets are fragile, that a major change like that could be——

Senator BOND. I am not saying right now. We are scratching and clawing to get out of this, but going forward—I do not always trust regulators to avoid problems. I think that we ought to have some standards in place that lessen the number of people who can come close to the line. And I believe Canada also generally requires a larger down payment, which all goes back to the point that you emphasized and I emphasized that we need to make good quality, affordable rental housing available for people to have a good home until they can afford to buy a home and do it without risking their credit or without risking the viability of the community.

Thank you, Madam Chair. I have got a whole lot more to go, but I want to hear from Senator Lautenberg.

Senator MURRAY. We will come back to you.

Senator Lautenberg.

Senator LAUTENBERG. Yes. Mr. Secretary, would the elimination—I think that is a fair representation of the HOPE VI program, its principal mission, revitalizing distressed public housing with this new Choice Neighborhoods Initiative. Now, recent estimates indicate there are still 80,000 distressed or severely distressed public housing units that remain nationwide. Now, if HOPE VI is eliminated, is it possible to have enough resources available to revitalize these public housing units?

Secretary DONOVAN. Senator, I am glad you asked that question because I want to be absolutely clear about this. The Choice Neighborhoods proposal is in my view, quite frankly, a celebration of HOPE VI, and it says it has worked so well that we ought to think about expanding that model and making more resources available.

But I want to be very clear as well. What we have proposed, I think it is extremely clear to us, would expand resources for housing authorities to continue to take on and accelerate the efforts to revitalize troubled public housing. And here is why.

First of all, what we have proposed—this year $120 million was provided for HOPE VI. We are proposing $250 million, so a significant expansion of resources, first of all.

But even though we are opening it up to assisted housing, we have looked very carefully, and not only is—there is three times more public housing that is in troubled condition and located in neighborhoods of high poverty than there is assisted housing. So the expectation is that the large majority of these resources would go to public housing, not to assisted housing.

The third thing that I would mention is that we are proposing to make eligible privately owned housing as well. We hear from housing authorities all the time that one of the challenges they have is the inability to use HOPE VI to help turn around privately owned housing that surrounds public housing, whether it has been foreclosed or vacant or abandoned. So we think we are actually not only giving housing authorities more resources to do HOPE VI redevelopment, but actually expanding the kinds of things that they can do as well. So we believe strongly that this is, as I said, a celebration of the model, not an elimination by any means of the program.

NEIGHBORHOOD DETERIORATION

Senator LAUTENBERG. We are pleased to see the expanded amount of resources available, but that still falls short of the need substantially. What do we do to encourage people about their living standard that, as you just said, includes deterioration in the neighborhoods around these places? How many units will still be left in this distressed condition that we have to pay attention to?

Secretary DONOVAN. Well, I think the good news on that is that this proposal comes on the heels of a Recovery Act, thanks to you, that made substantial investments in public housing stock, $4 billion total of capital funding that I think will go a long way to helping to ameliorate that. I do not believe we are there yet. There are still significant needs in public housing, but I think the combination of the significant expansion in Choice Neighborhoods, as well as the $4 billion in Recovery Act funding, is a very, very important down payment on where we need to go with public housing.

Senator LAUTENBERG. We are still not at the goal line, and we have to keep working on it.

Secretary DONOVAN. I would agree.

Senator LAUTENBERG. The economic recovery act raised the maximum loan limit for FHA so that potential homeowners in high cost-of-living areas like my home State could access FHA loans. Do you support extending the increased maximum loan limit when it expires at the end of this year?

Secretary DONOVAN. I would say, Senator, that it is too early, in my mind, to give you a final answer on that. It was extended really to make sure that we had expanded capacity not just at FHA but also at the GSEs to serve a market, quite frankly, that had disappeared when the credit crisis occurred. I think we have to look carefully at how far the market is at the end of the summer, at the end of the year, before making a decision to extend it beyond the 1-year extension that was there.

I do believe, as I said earlier, that FHA's purpose is to work in concert with the private market to provide financing where it is not available from the private sector, and I think we need to look at the loan limits in light of where we are in terms of that balance as we get closer to the expiration.

HOUSING COUNSELING

Senator LAUTENBERG. The prospects realistically are not for lower prices. If the economic recovery takes hold, we are going to see an increase in prices. We are now seeing an increase in interest rates for housing loans.

So I wanted to discuss the counseling situation. The President's budget increased funding for housing counseling by $35 million, and this is a substantial increase in funding. The demand for housing counseling is also far greater. Is the funding request enough to meet the need for housing counseling? How many people are we talking too currently, and will we have enough money available to increase that availability, because that is such an important part of people's emotional and, obviously, financial condition.

Secretary DONOVAN. What I would say Senator is that while it is a substantial increase, it would allow us to serve over 570,000 households with counseling next year. That alone is not enough to deal with the current crisis that we have.

Importantly, we have two other sources of resources. One is from Congress through NeighborWorks, there was an additional allocation of, I think, $190 million last summer. That brings the total to, I think, around $300 million, which has been an enormous help. That is specifically targeted to foreclosure prevention. Our counseling money is for broader purposes that includes first-time home buyer counseling, post-purchase counseling, et cetera. So it is very important to see it in the context of the $300 million.

But even that I think is not going to get us there, and I met with NeighborWorks the other day on this. Servicers have agreed that counseling is an eligible expense, but we have not seen a broad use of that authority to allow reimbursement of foreclosure counseling. And I think if we are really going to get to the scale we need to on this problem, we need to encourage the servicers and work with the servicers to have them expand their reimbursement of foreclosure counseling, and we are doing that. I met with HOPE NOW just this week to encourage them to do that, and they have reengaged with the servicers to see if they can get them to more broadly reimburse. And I think if we can do that, then we could actually get to the scale that we need to really deal with the full problem.

Senator LAUTENBERG. Thank you, Madam Chair.

HOMEOWNER BUYER TAX CREDIT

Senator MURRAY. Thank you.

Mr. Secretary, HUD recently clarified that participants in the FHA program can use the $8,000 first-time home buyer tax credit to defray closing costs or to increase their down payment. That, we know, is going to enable more families to afford housing and provide an important jolt to the housing market.

Some people have proposed allowing the tax credit to be used to defray closing costs for non-FHA products. Do you think that monetizing the homeowner buyer tax credit can be effective in helping to stimulate demand beyond the FHA products?

Secretary DONOVAN. What I would say on that, Senator, is I think it would have some incremental benefit. I think it is unlikely to have as much benefit as what we have done with FHA. The reason for that, quite simply, is that today because of the lack of mortgage insurance, as I talked about earlier, or the limited availability of mortgage insurance, the down payment requirements are quite large, and an $8,000 credit in that case will have a harder time overcoming the barriers for first-time buyers with the size of the down payment that they need in general in programs.

That is why we focused in our guidance on FHA lenders where we have a lower down payment requirement, as well as on State housing finance agencies that I think have been some of the most creative lenders to first-time buyers. And that is where we do see a lot of the activity.

Having said that, I also think it is important to recognize we did try to balance very carefully that we do not get back to the point of having zero down payment loans. So our guidance is unless you have an approved down payment assistance program through a government entity or a NeighborWorks, you need to have that 3.5 percent down payment even for the FHA loan. So we really tried to make sure we are balancing the health of the fund with the need to stimulate the market. I think we have got that balance right.

Again, I think there could be some incremental benefit to expanding it more broadly. There are private lenders that are looking at that, but I just do not think it is going to have as much boost as the FHA because of the down payment requirements.

SECTION 8 FUNDING

Senator MURRAY. Section 8 tenant-based rental, a critical tool for a lot of our families today. At a time when this economic recession is really hitting a lot of people especially hard, I think that program is even more important than ever. In order to continue this program, the President's budget included $17.8 billion in total resources for the tenant-based rental assistance. That is an increase of $1.8 billion over 2009.

Are you confident that the amount of funding is sufficient to fund all of the existing section 8 vouchers?

Secretary DONOVAN. Based on our latest information, we are confident. In fact, we based those estimates on the end of December very latest leasing. And one of the reasons there is such a significant increase is that we did see housing authorities really increase their leasing late in the year, which I think is a positive thing in terms of helping more families in the economic crisis, and that led us to really think that it was important to request a significant increase.

The other thing that is contributing to that is not just vouchers that were outstanding at the end of December, but also the significant number of vouchers that will be expiring for the first time, whether they are tenant protection or incremental vouchers that the committee has provided. I think it is, obviously, critically important as VASH vouchers and other vouchers start to expire that we ensure we have adequate resources for those.

We have preliminary information from March 31, which shows roughly level leasing from December. So we continue to believe that that significantly increased number should be adequate for next year.

The only other thing I would just mention—I do have some concerns given the ramp-up in leasing that we saw late in the year, that we may have some housing authorities that will have difficulties this year during 2009 with the allocation. So I want to make sure that our staffs are in contact about that to make sure that we give you the latest information of what we are hearing from housing authorities so that we are dealing with the issues in 2009 and the ramifications it might have on the 2010 budget.

VOUCHER SUSTAINABILITY

Senator MURRAY. Congress has struggled for a long time to balance the need to serve as many families as possible with the need to ensure that we are managing the growth in this program's cost. We have taken several steps to provide stability and consistency of the section 8 program over the last few years, and we have seen an increase in utilization by PHAs. It is good. More families are being served, but we have to balance that with the costs in the future.

Can you describe for us what your long-term plan is for ensuring that we are increasing vouchers at a level that we can sustain in future years?

Secretary DONOVAN. Well, first of all, to be very frank, one of the problems here is that you have not been able to get good information from HUD, and we have not had the systems in place to be able to give you that information. One of the key investments that we propose to make with the transformation initiative in the budget is to build a system that can accurately provide you data on the budget costs.

We spent a lot of time. I probably personally spent 8 or 10 hours with budget staff as we developed this estimate, and I believe we finally have good information for you this year. But we need to go farther to have not just information that we are getting today from March 31 leasing but have real-time leasing information from around the country to be able to make sure that we get the best information and can respond quickly to trends that we are seeing to keep program costs under control. So that is the first thing.

Second of all, there are many things about the voucher program that require work by housing authorities—having run the fourth largest voucher program in the country, I know this very personally—that frankly are not necessary. And I think the Section 8 Voucher Reform Act and other efforts to simplify the program will go a long way. Things like seniors on fixed incomes, not having to recertify them on such a regular basis because we know that it is predictable, and focusing our efforts on families that need to be recertified more often, a whole range of other simplification of rent rules and income rules and a whole range of things that could make the program more cost-effective. That is the second thing.

Finally, I think one of the critical things is getting a stable, predictable funding formula. We have attempted in this budget proposal to make some of the fundamental changes that we believe would make sense, provide the flexibility around unit caps and other things that will allow housing authorities to plan better and therefore be able to move their programs in the right direction to stay within their budget caps.

So there is a range of things that are critical in doing that. There is no one magic bullet there, but I believe with those set of things, that we can get to a point where we can keep voucher costs under control, we can serve more families with less money, and get you the information that you need to make decisions.

Senator MURRAY. All of those are important. We all want to see the increased utilization. We want families to have this. What we do not want people to have is the promise of vouchers for a budget that in the future we cannot sustain, and we are sitting at a town hall meeting and people are screaming that their vouchers have been taken away. So we want to work with you on this balance as we work through this.

Secretary DONOVAN. Absolutely.

Senator MURRAY. Senator Bond.

MORTGAGE INTEREST RATES

Senator BOND. Thank you, Madam Chair.

We were talking about simplifying the process, cutting the red tape, and getting us better information. I can only say amen and thank you. It is a long time coming, and we are looking forward to it.

I meant to touch briefly on concerns I have. In the Making Homes Affordable initiative, the administration projected it would benefit 7 million to 9 million homeowners. Unfortunately, the reach in benefit was linked to mortgage interest rates, and with them hovering now around 5.5 percent and potentially going higher, what impact do you see that having on the goal?

Secretary DONOVAN. Well, I think there are two different issues there. One is around refinancings. Making Homes Affordable projected 4 million to 5 million homeowners that we would be able to help through refinancing for underwater homeowners. For the vast majority of those, one-half a point or one-tenth of a point change in interest rates is not going to significantly affect the benefits of the program because those are families that are, in general, at much higher interest rates. But I do think it will have some marginal affect on the number of folks that can benefit from that.

On the modifications, however, we still have the ability under the program through modification to get an interest rate down to as low as 1 percent, and that is independent of where interest rates are today. So I do not think it will have a significant impact on the modification portion of the program, and in fact, I quoted that we had offered 30,000 modifications last week. We expected to help between 3 million and 4 million homeowners with the modification plan over 3 years. So if you do the math, 30,000 in a week actually get us in that range over 3 years. So we are starting to get to the kind of volume that could get us to the scale, and I do not think on the modifications in particular that interest rates will have a significant effect.

Senator BOND. But I think, obviously, that is optimistic that you will be able to continue. On the modifications, while it is not in the budget, if you are lending out money at 1 percent and the Federal Government is borrowing everything that is going out the door now, there is a hidden subsidy that, fortunately, is not charged against our budget, and I guess we should not raise it here. But it is going to go on the debt of the Federal Government balance sheet.

Secretary DONOVAN. Most of the cost is actually absorbed by lenders because we require them to take more than 50 percent of the losses through the program. As you have said when we were talking before, they should because the alternative for them is foreclosure where there are significant losses.

Senator BOND. On these, are you giving them a soft second, a second lien on the home so if it is sold for more than the reduced rate, the lenders—to the extent that we are subsidizing them, they ought to get some. Will there be a soft second on the assumption that maybe the home prices will rise again and they will be sold at higher than their reduced loan rates?

Secretary DONOVAN. On the modifications, in fact, the loan stays intact. So the full amount of the loan is there. So if there is an increase—one more thing I would just say about the cost of this. We are paying for our share of the program through TARP funds. So we have already set aside $50 billion in TARP funds, and that will not require new appropriations. So that is already built into the cost of TARP. It does not have, whether on FHA or any other Government program, an impact.

BUYERS TAX CREDIT

Senator BOND. Well, I am pleased to hear that because I have been wondering. After we agreed to the TARP program to buy troubled assets, I have seen us buying a lot of troubled banks, troubled auto companies, and if you are finally buying down some troubled assets, it is about time. We kept wondering where it was coming from, and that was the whole reason to support it in the first place. I have been extremely disappointed that since we enacted it last year and this year, we have not been using it for the purpose that it is being used.

Another question may be before us. As part of the stimulus act, Congress provided an $8,000 tax credit for first-time home buyers. There is a new proposal that would increase that to a higher level at $15,000. There was a proposal to limit that to buying homes out of foreclosure. What is your sense on the impact this could have and whether that would help stop the decline in home prices?

Secretary DONOVAN. Two things I would say. Obviously, increasing the amount of the credit would bring more buyers in but, obviously, at a cost. So Congress has got to weigh whether that cost is affordable and whether it can be absorbed, given all the other expenses.

The other piece of this that has been discussed is extending it not just to first-time home buyers but beyond that to any home buyer. I think the issue there is that while that could have some incremental benefit, when you have an existing home buyer who is buying a new home; you are selling a home and buying a home. So it does not have the same kind of positive impact on the market that a first-time home buyer getting into the market from renting in the first case to absorb the overhang of——

Senator BOND. Well, I agree with that. But is there any wisdom in limiting it to foreclosed homes to try to save communities?

Secretary DONOVAN. It is an interesting idea. I had not thought about that before. We, obviously, have significant resources from the Recovery Act through the Neighborhood Stabilization Program from last summer that is doing exactly that and trying to concentrate on neighborhoods with lots of foreclosures. I think there is more we can do with our own foreclosure——

Senator BOND. The city council members, the mayors are saying what am I going to do with this community that has got 20 percent foreclosed? The retail businesses are shutting down. That is causing further collapse, and they are seeing their communities absolutely deteriorate.

Secretary DONOVAN. We should follow up because we are releasing today the competition for $2 billion in Neighborhood Stabilization funding that was in the recovery bill. We have already provided Missouri significant funding from the $4 billion that was allocated last summer. But this is an opportunity—this additional $2 billion—to really take those efforts to the next level in St. Louis and a range of other places. So we ought to follow up and make sure you have all the information.

Senator BOND. Yes. Could we get information on that, because it is not just limited to the major cities?

Secretary DONOVAN. Not at all.

Senator BOND. There are suburbs and rural areas.

Secretary DONOVAN. In fact, one of the things we really want to encourage in the competition is that jurisdictions work together across regional lines, including suburbs, rural areas. So we are very interested in doing that.

HOMELESS VETERANS' NEEDS

Senator BOND. I am going to impose on the chair's time for just one question we are both interested in. The President's budget does not include additional HUD–VASH vouchers while the President said he wants to have homelessness among veterans—and Senator Murray and I are very interested in homeless veterans. How are you going to address the needs of homeless veterans, especially those with disability? What are your plans there?

Secretary DONOVAN. I am very glad you asked this question because I want to make sure I am very clear that I and the President strongly support the VASH program and are working hard to make it as effective as possible. Of the 10,000 vouchers that were allocated in 2008, 79 percent of those have been issued. Over 40 percent of them are already leased. We had some early start-up issues which basically the Veterans Administration had to get case managers up and working before we could get the vouchers issued. So now that those case managers are in place, we have begun moving quickly to get the vouchers out, and obviously, there is an additional 10,000 that were allocated that we will be competing very shortly.

I would say a couple things about why we have not included them in the budget proposal.

First of all, as I mentioned earlier, we were quite concerned that given the leasing level in the overall program, that we would need significant increased dollars. I think it is an important conversation with the committee to understand what is available for incremental vouchers versus supporting vouchers that are already there. We, obviously, want to have that conversation.

Also, I do have some concern that if we have multiple kinds of vouchers within the program that we may create administrative complexity for housing authorities. I think the ideal situation from my point of view is that an experiment, a model like VASH over 2 years that we can learn the best lessons and then we could get housing authorities not just using VASH vouchers, but using any of their vouchers to effectively serve veterans. So I think the opportunity for us is to think of VASH as a good model that can then be expanded to the entire voucher program in a way that is as flexible as possible for housing authorities in implementing it.

Having said that, we are very hard at work with the VA, in doing that, we are issuing joint guidance with them. We are actually holding a conference with them, our first conference on HUD–VASH to make sure that implementation moves smoothly, and I have been working closely with General Shinseki, now Secretary Shinseki to make sure that it moves swiftly. I would be happy to provide more details on it, but I do think it is a very important conversation about what we do in the 2010 budget that I look forward to.

Senator BOND. Thank you, Mr. Secretary.

COSTS RELATED TO TRANSFORMATION INITIATIVE

Senator MURRAY. Mr. Secretary, you mentioned getting information more timely and accurate. That is a goal that I obviously share. It is refreshing to hear that from you.

But I do need to signal to you some major challenges with the transformation initiative proposal that you put forth. Under this proposal, you would have the authority to transfer up to 1 percent from all of HUD's programs to that initiative, with a total cost that could reach $434 million. Given the magnitude of that, this subcommittee needs more precise information about what you would fund and at what cost before granting HUD that kind of flexibility.

Your testimony this morning does outline some of the priorities. Can you provide any more information to us about how much you expect these initiatives to cost in fiscal year 2010, and will that $434 million be necessary this year?

Secretary DONOVAN. We do have more detail about those initiatives, obviously, much more than is in my testimony. I think we have started to provide some information to your staff. I would be happy to provide more detail on that.

As I mentioned earlier, the single largest and most important initiative is the FHA modernization. Our sense is that the full cost of that, not the 1-year cost, but the full cost of that, is in the range of $110 million to $130 million.

Senator MURRAY. Is this the next-gen technology?

Secretary DONOVAN. This is specific next-generation technology for FHA. So that is one piece of the technology.

Senator MURRAY. Do you know how much that will cost?

Secretary DONOVAN. Total cost, between $110 million and $130 million.

The other I think most important system investment that we would want to make is for a new voucher system, as I mentioned. The total cost—again not a 1-year cost, but the total cost of that—our estimate is that is roughly $90 million to $110 million. Again, that is over multiple years.

Senator MURRAY. This year?

Secretary DONOVAN. That is over multiple years. These are estimates for 5-year total costs for those systems.

Senator MURRAY. What we need to see for our oversight and for our appropriations mark this year is what those initiatives are going to cost this year, and what you are going to be transferring this year for those programs.

Secretary DONOVAN. Absolutely.

If I could just make a comment about that, I clearly recognize that we are asking for a flexibility that is quite different.

FLEXIBILITY AND ACCOUNTABILITY

Senator MURRAY. No. We always get asked for flexibility, but then we lose sort of where that has gone.

Secretary DONOVAN. I think we have absolutely got to provide complete accountability to you to make sure, if we were to move forward in this direction, that we are giving you a plan that we are regularly reporting to you. I recognize that that is a significant request.

My concern and one of the things that led to this proposal is that I see, for example, a dramatic change in the housing market where FHA does not have the ability to respond with new fraud systems. There is a fraud system we simply could not buy this year until the 2009 allocation came out that would have allowed us to get started earlier. And there are unforeseen things that happen because FHA is a market-oriented program.

So I would love to have more conversation with your staff about it. What we are trying to figure out is how we can give you the accountability that you absolutely should have while also having the ability to respond quickly to changes and to be more—another example I would give you.

We have many, many different technical assistance categories in our budget that come just on a program basis, but when I go out into neighborhoods, I hear, well, you have got this Neighborhood Stabilization funding, but you have also got your own FHA foreclosures and we cannot get technical assistance in making those work together. So one of the things we are proposing here is to have more flexibility to be able to move technical assistance dollars across the agency so that we are combining and bringing together our programs with technical assistance that actually makes the most possible impact in neighborhoods rather than just focusing on one program or just focusing on another program.

So there is a range of places where I think flexibility can help. If we can figure out a way that you get exactly what you need in terms of——

Senator MURRAY. Well as you know, our role is oversight, and we are always asked for flexibility, and then we get yelled at for funds that were misused. So we need to come to an agreement. What I would like to do is have your folks sit down with our staffs on both sides of the aisle and walk through how much you are asking for this year and where that flexibility is and how you intend to use it and what the benefits are because without understanding that, it is very hard for this subcommittee to trust what happens, even though I have a great deal of respect for you. It is just a history of this subcommittee that we have seen before.

Secretary DONOVAN. Rightly so.

Senator MURRAY. So we need to know what the specific amounts for this year, as we are allocating for a yearlong appropriation bill, what the benefits are, and what kind of flexibility you are asking for.

Secretary DONOVAN. Absolutely.

Senator MURRAY. Senator Bond?

Senator BOND. Thank you, Madam Chair.

I was sitting here making notes to myself as you went along. I could not agree more with the chair that with flexibility must come accountability. You tell us you are going to take care of the VASH without having earmarks in it. Good luck. That would be ideal. We will be watching and we want to see how it works. I really think that better information is key to that. I understand that the red tape and the hassle very often really mess things up. So if you can do that that would be fine.

On homeless, we want to see the idea of supportive housing really which this subcommittee has pushed for a long time. It is now in the law. It is critical. Some time ago, I helped reactivate the Interagency Council on Homelessness because we saw a lack of coordination. Are you getting that coordination? Do we need to give it a kick with legislative language on the interagency council? We have got to have all of the agencies working together on this supportive housing.

Secretary DONOVAN. Senator, I could not agree more. An update on that, we are interviewing candidates for that, to run the interagency council. We have convened the first meeting in the next 2 weeks with Secretary Shinseki. He is actually the acting chair, and I will become the next chair for it. And our initial focus in the first meeting will be on VASH and veterans issues. I could not agree more that that is a critical place to move forward our efforts.

Senator BOND. And it is not just for veterans. It is across the whole area of homelessness.

Secretary DONOVAN. I would also add one of the most important things you did, I think, in the Recovery Act was the prevention resources, the $1.5 billion, that has really allowed us to take our efforts to the next step in preventing homelessness, and in particular, one of the barriers we have had with VASH has been—whether it is a security deposit—there are very small hurdles that, when you add up, can stand in the way of a veteran being rehoused. This prevention money has been very helpful, and we are using it in concert with VASH to make it even more effective. So I thank you for that.

MORTGAGE LENDER REGULATION

Senator BOND. Well, I have got some rather open-ended questions I will submit for the record, and you can, at your convenience, reflect on the future of GSEs, the rural innovation funds.

I want to ask a specific question. Mortgage issues I hope will be considered as a part of regulatory reform. Last year, I introduced legislation proposed by the Treasury for a mortgage origination commission because what we saw in our State was that the bricks lenders were pointing their fingers at the clicks lenders, the people who issued loans out of savings and loans and banks, at regulators. They did not always do a good job, but the people who were sending in the super-sweet, no-down-payment, low teaser rate loans over the Internet and the fax—I have tried to be on a Do Not Fax List. I have got all kinds of blocking devices on my e-mail, and they come in. Somebody has got to regulate them.

Do you see a mortgage origination commission establishing a State structure or some overall structure for regulating everybody who is lending so we know who they are and what they are doing?

Secretary DONOVAN. I think you have put your finger on one of the fundamental problems with our current regulatory system. We have different regimes for different kinds of institutions, and the vast majority of these subprime loans came from non-bank institutions that sort of fell through the cracks. So that is absolutely a central piece of what we want to address with our regulatory reform efforts. We expect very shortly to have a full set of principles, including around mortgage originations that would include clear consistency across the bricks and the clicks, as you said. I could not agree more.

Senator BOND. That is critical from what we have seen. From my own personal experience, I could have signed up for so many 1 percent no-down-payment loans if I had just responded. Fortunately, I passed up the opportunity.

Low-income housing tax credit, we have heard that HUD may be making changes that could affect eligibility of LIHTC disaster credit projects especially in rural areas and/or for our preservation deals for the LIHTC equity gap. Can you look into this with Secretary Geithner to make sure we are providing reasonable roles for disaster credit projects? There are questions about it. We have tried to help the low-income housing tax credit issuers like our MHTC in Missouri, and there seem to be more glitches than progress.

Secretary DONOVAN. I would love to hear more about the specific issues.

There are two different resources that were in the recovery bill for tax credits. There was HUD's tax credit assistance program and then Treasury has a trade-in provision. We looked very carefully at whether the legislation allowed us to trade in disaster credits, and Treasury's lawyers do not believe that we have the authority to trade in the disaster credits.

But we took a step, which hopefully is very important. I was in Iowa yesterday and heard that it is being very effective. What we allowed was that if even $1 of regular credits goes into a disaster assisted project, that that is enough to allow our tax credit assistance program, which is over $2 billion, to flow to that project. We have heard very positive feedback from the housing authorities on that decision, which we made just recently. But if there are additional things that we need to do, my staff is actively engaged with Treasury on this issue and I would love to hear more details about what the problem is they are facing.

Senator BOND. The chair and I have worked on that in the past. We think it is very important. That is one area where we can get housing started, get jobs, and deal with the housing problems that we have.

Again, I will submit for the record and your consideration questions on how you are going to eliminate and consolidate 27 programs in the budget. I have a great interest in early childhood development, and I would like to know how you are assuring that in the assisted housing and in the public housing there are programs available for these children and families in those assisted and public housing to get the kind of early childhood assistance that makes the parents better teachers of their children and enables a better development for a free formal education development of these children.

With that, Madam Chair, I have covered the things that we need to cover publicly and we will await the responses from the Secretary on the submitted questions.

HOMELESS CHILDREN HOUSING ISSUES

Senator MURRAY. Thank you very much, Senator Bond.

I just have one more comment. President Obama signed the HEARTH Act, homeless reauthorization bill, into law. That legislation requires HUD to develop rules and regulations related to the treatment of homeless children. This is an issue very close to me, and is near and dear to my heart. So as you move forward with implementing that law, I just wanted to urge you to work very closely with the Department of Education and Secretary Duncan to make sure that we do get poorly housed and homeless kids into housing and help them get the services they need. I think this is a really important area of coordination. So I am looking forward to hearing that you will work with him and that we can hear more about this.

Secretary DONOVAN. I am very glad you mentioned it. It is a very, very important issue, and I appreciate your leadership on this. I have already begun meeting with Secretary Duncan and his team on it. There were $75 million, as you know, in the recovery bill at the Department of Education that we believe can very effectively work with the $1.5 billion in prevention funding that we have. We are in the process of drafting joint guidance to go out to our entire continuum of cares and to schools around the country to make sure that that gets implemented in an integrated way, and I would be happy to share that with your staff as it is being developed.

Senator MURRAY. Okay, very good. Just because a child does not have an address does not mean they should not get an education.

Senator BOND. And a shameless plug. Senator Murray and I are sponsoring an Education Begins at Home Act to promote home visitation and the Ready to Learn Act. So we have got different hats on there, but we will be watching.

Secretary DONOVAN. There is nothing shameless in that plug. That is a very important plug. Thanks.

Senator MURRAY. Thank you, Senator Bond.

ADDITIONAL COMMITTEE QUESTIONS

With that, the record for this hearing will remain open for 1 week so Senators can submit any questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

HOPE VI

Question. HOPE VI successfully revitalized many of the most severely distressed public housing projects. However, there is still a lot of work left to be done. HUD's own numbers show that there are 169,498 Public Housing units that show signs of being severely distressed.

Expanding Choice Neighborhoods to address problems with assisted-housing as well as public housing may make sense, but we can't lose sight of HOPE VI's original goal. Also, Public Housing Authorities across the country have to be made confident that the goal of Choice Neighborhoods isn't to push them to the side of the community revitalization process, but to offer them additional resources and tools.

What are your plans to make sure that the goals of HOPE VI are accomplished and that revitalizing the country's most distressed public housing continues to be a top priority for HUD?

Answer. The Department recognizes that a significant number of public housing units remain to be redeveloped and this will continue to be addressed in Choice Neighborhoods. Preliminary proxy indicators for Choice Neighborhoods show candidate public housing units at a three times greater rate when compared to candidate assisted housing units. For example, using a REAC score of less than 80 in census tracks of 40 percent poverty or higher, the eligible units would be 241,997 of public housing and 83,184 of project-based voucher. It is our expectation that under Choice Neighborhoods, housing authorities will continue to submit applications for the development of public housing, perhaps in partnership with the local jurisdiction or with a private owner of a distressed assisted housing project. The Department's goal is to have as the lead applicant, the agency or organization most able to ensure the success of the project.

In addition, the Department has provided housing authorities with other avenues with which to redevelop public housing through the use of Capital Funds, mixed finance development and the Capital Fund Financing Program. Also, housing authorities have increased their development capacity and ability to work with private developers to secure tax credits and other funding that will help them redevelop distressed public housing units.

The Department has and will continue to work with housing authorities that have existing HOPE VI grants to ensure that these grants are completed as expeditiously as possible. Another HOPE VI competition will be conducted and additional grants made under the fiscal year 2009 HOPE VI appropriation. As of March 31, 2009:

—One hundred and two of 246 grants have completed 100 percent of their housing construction;

—A total of $5,183,300,118 HOPE VI funds expended out of $6,014,958,067 awarded;

—The initial goal under HOPE VI was to redevelop the most severely distressed (identified as 86,000 units). This goal has been exceeded. While more needs to be done, this is impressive progress.

CHOICE NEIGHBORHOODS/PROMISE NEIGHBORHOODS

Question. When I introduced language to re-authorize HOPE VI, I formed a task force of experts to help figure out what lessons we could learn from the program's early years. The first and most important recommendation they made was that schools had to be front and center in any redevelopment effort. This is a recommendation I agreed with whole heartedly, and wrote into the HOPE re-authorization bill I introduced last year.

I know that you share my belief that creating strong communities requires strong schools, and I know that is why the administration has said it envisions complimenting Choice Neighborhoods with Promise Neighborhoods, a program in the Department of Education.

Can you provide some additional details on how the two programs will interact? Why in your opinion is it so important for communities to tackle education and housing transformation at the same time? Will other strategies and approaches to education improvement be considered in addition to Promise Neighborhoods? Choice Neighborhood grants are anticipated to provide about $25–$35 million in funding. I know that the President has requested $10 million for Promise Neighborhoods planning grants this year. In future years, how much funding do you expect individual Promise Neighborhood grants to receive?

Can you provide some additional details on how the two programs will interact?

Answer. We expect there to be numerous linkages between the two programs. The Department is already in consultation with the Department of Education, in order to coordinate both of our efforts—along with other critical Federal agencies and offices, including the Departments of Health and Human Services, Justice, and the Environmental Protection Agency. We are providing information to the Department of Education on our existing HOPE VI PHA partners and sites to help them identify potential opportunities for the first round of Promise Neighborhoods planning grants.

The two programs will both employ a similar approach in many respects. Grantees will form partnerships among local agencies and private partners bringing together a variety of critical assets and services. Choice Neighborhoods grants will require local partnerships to include not only housing providers but city agencies across program boundaries, local service providers and local businesses and nonprofits to find solutions for affordable housing, employment, education, safety, transportation and other key issues. It is thus likely that both the Choice Neighborhoods and Promise Neighborhood local partnerships will include similar local collaborations.

Question. Why in your opinion is it so important for communities to tackle education and housing transformation at the same time?

Answer. The Department recognizes the importance of your approach in incorporating critical educational components in your proposed HOPE VI reauthorization bill in the last Congress. Decent, safe and affordable housing is linked with neighborhood and community. Where a family lives dramatically affects their life opportunities. We cannot break the cycle of poverty without good schools. From another perspective, communities and cities themselves cannot attract residents and businesses needed for revitalization without good schools.

Thus, the goal of Choice Neighborhoods is to promote neighborhoods that are safe, free from crime and with access to good educational opportunities as well as community facilities, institutions and services. Education is at the center of Choice Neighborhoods. Local partnerships will be required to include an education component to cover a gamut of possible local approaches for early childhood initiatives, health education, resources for parents, school improvements and other education-related services.

Question. Will other strategies and approaches to education improvement be considered in addition to Promise Neighborhoods?

Answer. Yes other strategies and approaches to education improvement will be considered. For example, local collaborations to include education components will be included in all Choice Neighborhoods grants. Other strategies include providing after school programs, childcare and supportive services for residents. These could include early childhood initiatives, health education, resources for parents, school improvements and other education related services.

Just as we are encouraging the Department of Education to focus Promise Neighborhoods on neighborhoods that have already moved forward with HOPE VI, a community that has already initiated or succeeded in efforts to improve the educational opportunities for children in a proposed Choice Neighborhood would be well positioned in their applications for Choice Neighborhoods.

Question. In future years, how much funding do you expect individual Promise Neighborhood grants to receive?

Answer. The Department of Education's fiscal year 2010 budget request includes $10 million for Promise Neighborhoods for 1 year planning grants. Each of these would be eligible for implementation grants in later years upon successfully developing comprehensive plans to meet established needs of children and youth in identified high poverty communities. The size of future budget requests is yet to be determined and is dependent on a number of factors, including the lessons learned from the initial planning grants, analysis of municipal, social and economic need, and the overall Federal budget environment. That said, the administration is deeply committed to this program approach and the overall request will be significant.

CHOICE NEIGHBORHOODS

Question. Choice Neighborhoods would expand eligible grantees to include non-profit and for-profit developers. These developers will naturally have different goals than Public Housing Authorities.

In some cases this may be good, especially if it leads to creative solutions to community problems. However, I know you agree that Choice Neighborhoods can't be a privatized HOPE VI. Both for the sake of the residents and the community, we need to make sure that whoever receives Choice Neighborhood funding is focused on the best way to revitalize neighborhoods not increase their organization's bottom line.

If we expand eligible grantees to include non-profit and for-profit entities, how do we make sure that Choice Neighborhood grantees put communities and residents above profits or prestige?

Answer. The Department does not envision Choice Neighborhoods as a privatized HOPE VI. As a result of the strong leverage and match requirements that the Department envisions will be part of Choice Neighborhoods, non-profit and for-profit developers will likely partner with the local jurisdiction and/or housing authority. Without strong local support, we do not believe a Choice Neighborhoods application from a for-profit or non-profit developer will be successful at securing significant funding on its own. A successful application will require evidence of active resident and community participation prior to the application submission. Post award, the provision of supportive services to all residents affected by the Choice Neighborhoods plan will be essential. These activities will not be able to take place without the strong support of the public housing authority and/or local government working closely with for-profit and non-profit developers. As with HOPE VI, the most successful developments will be mixed-finance, mixed-income developments with a strong private sector component (in the lending, as a tax investor, often as the owner and manager). Choice Neighborhoods will require even a broader participation in the public-private partnership (wrapping in for example the local government, the county social services, other Federal agencies). It is possible that a non-profit developer or private owner is the lead applicant, but in all cases there will be significant public sector involvement.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

HELPING FAMILIES SAVE THEIR HOMES ACT

Question. The President recently signed the Helping Families Save Their Homes Act into law. Included in this law was a modification to the Neighborhood Stabilization Program that provides flexibility in how States receiving the all State minimum can spend their funds. The Congressional intent behind this provision was to allow States to use funds in areas where they might have a high number of foreclosures but not necessarily a high percentage of foreclosures, and to have these expenditures count towards requirements on spending in targeted communities. When does the Department plan to issue guidance to States on this provision and will it follow the Congressional intent behind it?

Answer. The Department has developed and is in the process of clearing a notice that will implement this provision. The notice will follow the intent of the provision to provide flexibility to States that received the minimum Neighborhood Stabilization Program (NSP) allocation of $19,600,000. The notice will set forth simple criteria for affected States to: (1) demonstrate they have addressed areas of greatest need; (2) identify other areas of identified need; and (3) allocate NSP funds to those areas consistent with those needs.

GREEN RETROFIT PROGRAM

Question. The Department recently issued guidance on how to apply for the Green Retrofit Program for Multifamily Housing funding that was included in the American Recovery and Reinvestment Act. One of the criteria used to determine eligibility for the program is the number of units located at a project. Unfortunately in a rural State like Vermont, the number of units required at some projects, such as section 202, immediately eliminates a majority of the projects in the State from being eligible. What assurances can you provide the subcommittee that the Department will show a commitment to assist communities in rural areas, as well those in urban areas?

Answer. Under the Green Retrofit Program for Multifamily Housing, the minimum number of units located in a project is used as an eligibility requirement for two primary reasons: (1) to meet the objectives of the Recovery Act to spend the funding for this program quickly and efficiently, which supports larger projects, and (2) there is limited set-aside funding to pay for due diligence data collection, underwriting analysis and other functions necessary to make the grants of loans under this program, and the per unit cost of these analyses increases as properties get smaller; a detailed calculation to fully utilize but not exceed the set-aside resulted in the final unit numbers reflected in the Notice.

BOND ISSUANCE

Question. Last month HUD's Senior Advisor for Mortgage Finance testified before the House Financial Services Committee that the administration is developing a plan to help State Housing Finance Agencies address their bond issuance and variable rate debt liquidity challenges. Almost a month has passed since this commitment was made and a plan has still yet to be released. When can Congress expect to get more details from the administration about this proposal?

Answer. The administration has made considerable progress developing the plan, but some legal issues relating to Treasury's use of the limited authorities granted under HERA remain to be resolved. Work continues with a sense of urgency, but staff resources are strained due to the many issues Treasury has had, and continues to address. We cannot give a precise date at this time but we are committed to providing a viable appropriate plan and maintaining our communication with the Congress.

MORTGAGE SERVICES ISSUES

Question. A number of my colleagues and I recently wrote to you regarding the poor responsiveness of mortgage servicers to our constituents who are attempting to modify their mortgages. Could you update the subcommittee on what steps are you able to take to address the concerns raised by our constituents who have been unable to access answers or adequate help from servicers? Additionally, could you provide for the subcommittee statistics on the numbers customers that have utilized HUD-certified counseling agencies and have successfully avoided foreclosure through the Hope for Homeowners and Making Home Affordable programs?

Answer. HUD recognizes that more needs to be done to improve the responsiveness and accountability of servicers participating in the program so that additional homeowners facing, or at risk of, foreclosure are contacted and assisted in a timely manner and has played a lead role in pressing the servicers to do more.

Secretary Donovan along with Treasury Secretary Geithner sent a strong letter to the CEOs of all participating servicers on July 9, calling upon them to devote more resources to the program. We have requested that servicers add more staff than previously planned, expand call center capacities, provide a process for borrowers to escalate servicer performance and decisions, bolster training of representatives, enhance on-line offerings, and send additional mailings to potentially eligible borrowers. The joint letter to participating servicers also requested that the CEOs designate a senior liaison, authorized to make decisions on behalf of the CEO, to work directly with us on all aspects of MHA and attend a program implementation meeting with senior HUD and Treasury officials on July 28, 2009. At that meeting, the administration asked servicers to substantially expend servicer capacity, help promote transparency and accountability at both the program and borrower level, and improve borrower outreach and the overall borrower experience. Servicers in attendance committed to significantly increase the rate at which they are performing loan modifications and to reach a goal of half a million modifications begun by November 1. We are on track to meet that goal. After that meeting, the weekly rate of trial modification starts increased by nearly 50 percent, from 22,000 to more than 30,000 on average and a number of concrete steps have been taken or planned by the administration.

Moreover, servicers participating in HAMP are now being held to higher performance measurements. Servicer-specific performance details were first published on August 4 and will be made publicly available on a monthly basis. These performance metrics are likely to include such measures as average borrower wait time in response to inquiries and response time for completed applications. So far, the servicer-specific data shows a wide range in terms of the performance of the various companies that are participating in the program, and the expectation is that, with the performance records now public, the servicers will be more motivated to increase their efforts and raise the number of borrowers they are assisting.

In addition, Freddie Mac has been assigned the role of giving a "second look" at the servicers' performance, as a further way of measuring success, by reviewing applications to make sure that eligible homeowners are not being denied. The "second look" program is also examining servicer non-performing loan (NPL) portfolios to identify eligible borrowers that should have been solicited for a modification, but were not. We are working to establish specific operational metrics to measure the performance of each.

The administration is devoting significant resources to helping as many borrowers as possible submit all required documentation and successfully convert their trial modifications to final modifications. We are establishing denial codes that will require servicers to report the reason for modification denials, both to Treasury and to borrowers. The administration is also working with servicers and Fannie Mae to streamline application documents and develop web tools, which can serve as a centralized point for modification applications, and for borrowers to check the status of their applications. In addition, we are exploring a variety of mechanisms to further encourage and enable servicers to leverage their relationships with nonprofits and other entities to help expedite the processing and approval of modification applications. HUD and Treasury are working to establish guidelines for servicers entering relationships with trusted advisors who would guide borrowers through the application process, help them prepare complete application packages, and troubleshoot if the borrower appears to have been improperly deemed ineligible for the program.

HUD has worked with an interagency team to establish a call center for borrowers to reach HUD approved housing counselors, so that borrowers are able to receive direct information and assistance in applying for the HAMP program. The administration is continuing to build capabilities of the HOPE hotline to escalate borrower complaints, and link borrowers to HUD approved housing counselors.

Lastly, HAMP's design provides servicers with strong incentives to make contact with distressed borrowers. The contracts signed by servicers to participate in the HAMP requires servicers to use reasonable efforts to contact borrowers facing foreclosure to determine their eligibility for the HAMP, including in-person contact at the servicer's discretion and require the servicers to screen all borrowers for eligibility for a HAMP modification before proceeding to a foreclosure sale. We are working to ensure to servicers follow the requirements of the program.

Through 3 quarters fiscal year 2009, agencies participating in HUD's Housing Counseling Program report 894,533 households receiving default counseling. By comparison, after 3 quarters fiscal year 2008, 399,066 households had received default counseling.

Of that total for 3 quarters fiscal year 2009, results are known for 398,087 households. The balance continue to receive counseling, withdrew, or no outcome is yet known. The following results have been reported:

—Brought mortgage current—34,908 (9 percent)
—Refinanced—10,640 (3 percent)
—Mortgage modified—105,001 (26 percent)
—Second mortgage—10,311 (3 percent)
—Forbearance agreement/repayment plan—59,770 (15 percent)
—Deed in lieu—2,982 (1 percent)

—Sold property, alternative solution—6,865 (2 percent)
—Pre-foreclosure sale—21,955 (6 percent)
—Mortgage foreclosed—12,777 (3 percent)
—Counseled and referred to emergency assistance—70,458 (18 percent)
—Partial claim loan from FHA lender—2,072 (1 percent)
—Bankruptcy—29,540 (7 percent)
—Debt management plan—13,764 (3 percent)
—Counseled and referred for legal assistance—17,044 (4 percent)
—Total with results: 398,087

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

SECTION 108

Question. The President's fiscal year 2010 budget request proposes to eliminate the section 108 Loan Guarantee Program. I am aware that this program has been successfully utilized in my home State of Pennsylvania. According to the Department of Housing and Urban Development's (HUD) Web site on the section 108 program:

"This makes (section 108) one of the most potent and important public investment tools that HUD offers to local governments . . . Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas."

Could you please comment on why HUD decided to eliminate this important program? And if it is eliminated, will any of its activities be assumed by other HUD programs? If so, please explain.

Answer. The Department has not requested budget authority to cover the credit subsidy cost for the section 108 program. However, the Department has proposed that section 108(m) be amended to allow HUD to charge borrowers a fee in an amount sufficient to reduce the program's credit subsidy cost to $0. If such legislative change is made, States and localities will still be able to receive loan guarantees under section 108 upon payment of the loan guarantee fee. However, if the legislative change is not made and no credit subsidy is appropriated, HUD would be unable to guarantee loans made to States and localities. In such case, States and localities will be able to use their CDBG funds for activities that are currently eligible under section 108 but they will not be able to leverage their programs up to five times as is now possible by using section 108.

FISCAL YEAR 2010 BUDGET REQUEST

Question. The President's fiscal year 2010 budget request for the Department of Housing and Urban Development (HUD) proposes $46.388 billion, an increase of $4.511 billion (10.8 percent) over comparable fiscal year 2009 levels. The American Recovery and Reinvestment Act (2009 stimulus) provided an additional $13.61 billion in funding for HUD projects and programs. Based on these increases, it is unlikely that HUD will be able to perpetually receive funding of this magnitude, year after year. What is your plan to scale back HUD programs and projects when stimulus funds eventually run out?

Answer. The stimulus funding of $13.6 billion provided under the American Recovery and Revitalization Act when added to the fiscal year 2009 regular appropriation totals $55.6 billion. In essence, the Department has already addressed the post-ARRA trajectory of our budget by requesting a net discretionary total of $46.3 billion in fiscal year 2010 which is $9.3 billion below the combined regular appropriations and ARRA funding provided in fiscal year 2009.

As you know, the fiscal year 2011 executive budget process is in its early stages and the Congress has not yet taken final action on our fiscal year 2010 request. The fiscal year 2011 departmental budget deliberations will address across the board Government guidance provided by the President through the Office of Management and Budget and will of course be cognizant of the need to reduce the deficit and carefully prioritize all spending requests. The Department will prioritize requests while addressing national needs and program effectiveness and we will provide detailed support for all of our budget requests. The Department will ultimately work in partnership with the Congress to determine the fiscal year 2011 budget as well as the direction of housing and community development policies as we look forward to the future.

AMERICAN RECOVERY AND REINVESTMENT ACT

Question. The American Recovery and Reinvestment Act (2009 stimulus) provided $13.61 billion for HUD projects and programs. And to date, approximately $10 billion in funds have been awarded and/or announced. However, it is my understanding that less than $1 billion of these funds have actually been spent. When do you anticipate the remaining funds will be awarded or spent? And is there anything that you can do to speed up HUD's recovery plan?

Answer. The American Recovery and Reinvestment Act of 2009 provided $13.625 billion to HUD. As of September 11, 2009, $9.82 billion has been obligated and $1.46 billion has been outlayed. Of the $9.82 billion in obligations, approximately $5.4 billion is formula and block grant funds. Some discretionary grants funds have not been obligated due to ongoing program competitions.

HUD remains committed to obligating and expending Recovery Act funding in a timely manner in compliance with applicable laws and regulations. The Department is proceeding according to its ARRA spending plans. Weekly financial and program activity updates are posted at HUD's Financial and Activity Reports on the Recovery.gov Web site at: http://www.recovery.gov/?q=content/agency-summary&agency__code=86.

PUBLIC HOUSING CAPITAL FUND

Question. The President's fiscal year 2010 budget request for the Public Housing Capital Fund is $2.24 billion, which is $206 million less than the fiscal year 2009 level. It is my understanding that HUD's justification for this reduction in funding is based on the $4 billion appropriated for the Capital Fund in the American Recovery and Reinvestment Act (2009 stimulus). Therefore, notwithstanding this $206 million decrease in funding for fiscal year 2010, do you still feel that the HUD will be able to adequately reduce the substantial backlog of public housing capital improvement needs and continue to modernize public housing developments by utilizing stimulus funds?

Answer. The fiscal year 2010 budget request in addition to the funds provided in the American Recovery and Reinvestment Act of 2009 (Recovery Act) will assist PHAs in reducing their backlog of capital needs.

To date HUD has obligated $3 billion by formula and the remaining $1 billion is being awarded competitively, and will be obligated by the statutory deadline of September 30, 2009. The economic impact from this stimulus funding will help meet a significant portion of the capital improvement needs at public housing developments.

The overall level of funding requested in fiscal year 2010 would provide resources to address the estimated $2 billion annual capital accrual needs of the public housing inventory, resulting from the 1998 modernization needs study conducted by the Department. Since that time, the backlog of capital needs for public housing has been reduced through demolitions of more than 190,000 units of the most distressed public housing stock as well as modernization and redevelopment of thousands of units. In fiscal year 2007, 85.7 percent of public housing units met HUD's physical standards, as opposed to 82 percent in 2001. The fiscal year 2010 operating subsidy budget request will reduce the need for PHA's to transfer capital funds modernization funds to subsidize public housing operations.

As part of the fiscal year 2010 budget, the Department has proposed an examination of a project based voucher model that could possibly provide more opportunity for innovation and private investment. Lastly, the Department is in the process of conducting a new capital needs study to obtain a current estimate of the public housing backlog.

ENERGY INNOVATION FUND

Question. The President's fiscal year 2010 budget requests $100 million for the Energy Innovation Fund, a new program aimed at incentivizing energy efficient housing. Can you discuss how this new program will be implemented, why retrofitting existing homes have been slow to materialize thus far, and how HUD plans on overcoming the difficult challenge of promoting "green construction" in our Nation?

Answer. A January 2009 survey by the Yale Project on Climate Change and George Mason University's Center for Climate Change Communication of 2,164 American adults found that substantial numbers of households would like to make energy-saving home improvements, but probably will not because in many cases they can't afford to, or because they don't know how to [1]—i.e. they lack the resources to finance the improvements, and they don't have sufficient information. The study notes that "while many inefficient heating and cooling systems are currently installed in American homes, and thus wasting energy and money, it will take several decades to turn over this stock, unless there are innovative Government programs to accelerate this transformation." This may require a "different financial model" to help more households take these actions.

The proposed Energy Innovation Fund is designed to expand the availability of financing to help catalyze the retrofit/renovation market. Barriers to implementing successful finance programs include: lack of consumer awareness of the benefits of energy efficiency, relatively low energy prices, lack of capital available to fund programs, as well as lender or investor disincentives, such as high transaction costs for program implementation. Financing energy efficiency through the mortgage program presents additional challenges: the fact that energy improvements are not fully reflected in home appraisals and the difficulty of incorporating the energy audit and related technical services in the home buying process.

Effectively organizing institutions and capital markets to overcome these challenges requires a comprehensive approach, that includes streamlining existing programs, providing consumers with better information, and expanding financial incentives for homeowners or home buyers to invest in energy efficiency. In this context, the goal of the Energy Innovation Fund is to develop and implement new and innovative uses of Federal resources to dramatically increase the scale of private sector investment in upgrading the energy efficiency of existing homes.

HUD's fiscal year 2010 proposal, Energy Innovation Fund envisioned (1) $50 million in competitive grant awards to support local energy funds, and (2) another $50 million to support expanding FHA Energy Efficient Mortgages for single family homes ($25 million), and incentivizing energy efficiency through FHA multifamily mortgage programs ($25 million).

Only the second part of HUD's request—$50 million for single family and multifamily energy efficient mortgages—was funded by Congress. HUD is currently developing a detailed implementation plan for these funds.

HUD is planning to implement the single family Energy Efficient Mortgage pilot program in four pilot sites, each served by one of HUD's four Homeownership Centers (HOCs) and where HUD's regional office has indicated a strong interest in promoting and implementing a pilot program in their region.

—The pilot sites will be selected on the basis of both local interest in, and capacity to implement the pilot program, as well as the potential for leveraging additional State or local funds to write down interest rates or outreach, marketing or program implementation costs.

—Generally, the funds will be used to provide an incentive for home buyers, averaging $2,000 per home, to include energy efficiency in the mortgage in the form of a reduced Mortgage Insurance Premium (MIP), or by paying for all or some of the cost of an energy audit.

The multifamily program will provide lower mortgage insurance premiums in conjunction with reduced application fees for projects that apply for one of several FHA multifamily mortgage insurance programs.

HOPE VI

Question. The President's fiscal year 2010 budget does not provide funding for HOPE VI, but instead proposes $250 million for the Neighborhood Choice Program to revitalize severely distressed high poverty neighborhoods. It is my understanding that this initiative extends neighborhood transformation efforts beyond public housing, and attempts to link early childhood innovation and school reform with housing interventions. Can you please comment on why HUD feels that there is a need to broaden this program beyond public housing? And is HUD concerned that a larger pool of eligible applicants will decrease the funds available to public housing agencies, thereby making it increasingly difficult for them to meet the challenges associated with severely distressed public housing units?

Answer. In Choice Neighborhoods, the Department is broadening the HOPE VI program to include a broader neighborhood focus that allows for redevelopment of a broad range of distressed property. This can include distressed public housing, distressed privately owned assisted housing, and other distressed properties in the neighborhood, including foreclosed properties. Private or HUD-assisted properties across the country that are vacant or distressed create a blighting influence on the

[1] Yale University, George Mason University, Saving Energy at Home and on the Road: A Survey of Americans' Energy Saving Behaviors, Intentions, Motivations and Barriers.

surrounding community. Some HOPE VI sites have already taken this broader neighborhood approach and have included the redevelopment of foreclosed HUD-assisted property. One example is Wheeler Creek in Washington, DC where a foreclosed and vacant FHA high rise was demolished and redeveloped in conjunction with the HOPE VI revitalization plan. At other HOPE VI sites, such as Coliseum Gardens and Mandela Gateway in Oakland, CA the housing authority worked with the city of Oakland and private and non-profit developers to buy vacant and distressed commercial and residential properties around the public housing site and incorporated the additional land into the HOPE VI revitalization plan.

In these difficult economic times neighborhood resurgence is fragile. The revitalization gains we have made at many HOPE VI locations can be strengthened by further bolstering other surrounding properties and deepening community services and anchor institutions.

With Choice Neighborhoods, local jurisdictions can now choose their most pressing priorities. Since there remains a large inventory of distressed public housing, we believe that many applications will still address those needs in the context of a neighborhood-wide reinvestment plan. In addition, HUD has provided additional mechanisms for housing authorities to revitalize distressed public housing through the use of Capital Funds, the Capital Fund Financing Program, and mixed finance development.

The Department incorporates e4ducational components in the initiative because along with decent, safe and affordable housing, good schools are necessary to break the cycle of poverty. Community revitalization and attracting residents and businesses require good schools. The Department is consulting with the Department of Education and will coordinate efforts with other critical agencies and offices including the Department of Health and Human Services, Justice and the Environmental Protection Agency. Local collaborations with an emphasis on educational opportunity will be a key component to achieving success.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

HOPE VI

Question. Expanding the benefits of HOPE VI beyond public housing has merit and deserves serious consideration. We have had some initial discussions about this issue and I want to continue them with you and your staff.

Can you lay out some general principles that should be considered for your "Choice Neighborhoods" initiative?

Assuming this initiative is not authorized, are there incremental steps that we could take beyond simply extending HOPE VI in its current form for 1 year?

Answer. The general principle underlying the Choice Neighborhoods proposal is that targeted revitalization that is concentrated and coordinated can break the cycle of concentrated poverty and provide an opportunity rich environment so poor families and children can have safe neighborhoods, quality education, and access to good jobs.

To be successful, however, requires several concurrent actions:

—*The Right Location.*—The Choice Neighborhood initiative would target neighborhoods with (i) a concentration of poverty, (ii) a concentration of distressed housing whether public, assisted, or privately held, and (iii) the potential for long-term sustainability because of the proximity to community anchors such as educational institutions, employment centers, hospitals, transportation, parks and other community assets that positions the neighborhood as a desirable place to live.

—*Real Educational Opportunity.*—Choice Neighborhood applicants will need to demonstrate that their plan includes a linkage to quality education for the children of the current and revitalized neighborhood. This could include a school transformation in the target neighborhood as well as linkage to the Department of Education's Promise Neighborhoods, among others.

—*A Market Driven Strategy That Provides Quality Housing Choices for Current Residents.*—Choice Neighborhoods involves ensuring that the existing residents are given adequate services and resources to maximize their success during the revitalization period and that they are afforded the post-revitalization choice of where they think their family will be most happy and successful. It also means that the revitalization strategy should be designed appropriate to the local housing market, which could include both higher or lower density housing on-site, off-site development in some markets, project-based assistance, and tenant based assistance.

—*Coordination.*—Choice Neighborhood applicants will need to demonstrate significant coordination among local agencies and the marshalling of resources from multiple sources, potentially including support from the Departments of Education, Labor, Transportation, Health and Human Services and the Environmental Protection Agency.

The Department has taken incremental steps to emphasize these principles through the current HOPE VI program, which is reflected in the fiscal year 2009 HOPE VI NOFA. However, the current HOPE VI program is limited to addressing only distressed public housing in neighborhoods which could also benefit from a larger scale neighborhood reinvestment strategy.

HOMEOWNERSHIP TAX CREDIT

Question. As part of the stimulus act, the Congress included a new $8,000 tax credit for first time homebuyers. This program was created by my colleague, Senator Isakson.

First, what are your views on the program and its impact on housing? Has it helped boost housing sales?

Answer. The program has not been in effect long enough for us to evaluate its performance. We have certainly heard anecdotally that it is a difficult program for first-time homebuyers to use, because they most often need assistance with their downpayment. With the tax credit, the homebuyer must execute the sales contract to qualify for the refund from the IRS, which only makes sense. However, the refund from IRS takes time and most often cannot be processed prior to closing on the home financing, so the borrower must first come up with their own downpayment funds. To do this, FHA will allow downpayment assistance provided by governmental entities, in the form of a loan to the borrower.

Question. Second, do you believe that the credit should be extended? Do you believe that a higher level tax credit, such as $15,000 as originally proposed by Senator Isakson, would have measureable impact on home purchases?

Answer. As we have mentioned above, the program has not been in effect long enough for us to evaluate its performance. Since it is still too early for us to have either the experience or data necessary to support any change, a higher amount of credit may not be worthwhile. Perhaps better results could be achieved with just a different delivery mechanism.

Question. Finally, you recently announced changes that will monetize the tax credit so that it can be used as a bridge loan for downpayment purposes. Given the history of no downpayment programs, such as the seller downpayment program, and FHA's long-standing management and oversight problems, I have strong reservations about this program.

Answer. FHA will only permit the governmental entities, which are authorized by law to offer downpayment in the form of loans, to offer a borrower the ability to borrow funds and repay with the tax credit refund from the IRS. FHA will also permit FHA-approved entities to offer an FHA borrower an "advance" on the tax credit refund to help pay for closing costs—but NOT a downpayment—to assist with the purchase transaction, but only for a limited fee.

Question. How are you ensuring that you will not repeat some of the pitfalls of the seller downpayment program that caused substantial losses to FHA?

Answer. Because FHA does not permit any entities, except those already authorized under the National Housing Act, to provide funds towards the downpayment, there is really no comparision to the previous seller-funded downpayment assistance arrangements.

Question. How does the performance of Government downpayment programs compare to subprime or the seller downpayment program? How do loan programs that provide downpayment assistance in general compare to those loan programs that do not provide downpayment assistance?

Answer. There is really no comparison between the programs, because the tax credits cannot be used for the downpayment.

HOMELESSNESS

Question. One of the challenges that communities are having is figuring out how to better use HUD's main housing programs to help end homelessness.

How will the Department's proposed "Transformation" initiative be used to help communities better use all of HUD's resources to help prevent and end homelessness?

Answer. In its homeless programs, HUD has been strongly encouraging communities through its Continuum of Care competition to utilize mainstream resources to develop comprehensive packages of housing and service options to meet the needs of homeless individuals and families. Internally, HUD is working through the Transformation Initiative to ensure that all programs are better responding to the needs of very low income and homeless persons. Transformation Initiative funding will provide four key elements—research, technical assistance, demonstration funding and IT funding all of which can build on research and models that proves what works to reduce homelessness. The Department is focused on adding to the effectiveness of our rental assistance proposal and understands that they are substantial contributions to reducing and preventing homelessness. In addition, HUD is developing better ways to ensure that communities receive the technical assistance resources needed to serve these populations and carry out its vision.

GSES

Question. The future of Fannie Mae and Freddie Mac remain uncertain at this point but I am interested in hearing your views.

What are your views about the future of Fannie and Freddie? If Fannie and/or Freddie continue to exist in some form, what are your views on reconciling the conflicting goals of private profits and public good? How important are the mortgage GSEs in carrying out Federal housing policy?

Answer. As you know the Department previously had an oversight role in terms of the activity of Fannie Mae and Freddie Mac with an emphasis on supporting affordable housing but subsequently this year, Congress enacted a new oversight organization for these two GSE's. In addition, the Department would be only one of a myriad of key actors in the administration who would forge policy and legislative recommendations in this area. At the present, Fannie Mae and Freddie Mac are crucial participants in stabilizing the housing market as well as the macro-economy. The issues you raise in your question are among the essential questions and they have a long history of unresolved debate within the Congress and with various administrations, all of which speak to the complexity of the issues. These issues will need a great deal more research and debate and will need to be further informed by how events work out in the near and mid-term as well as by testimony and advice yet to be received from experts in the financial and housing fields. The administration will partner with the Congress and industry and other groups to reach the right policy mix on the future of the housing GSE's.

RURAL INNOVATION FUND

Question. As I mentioned in my statement, investing in rural areas are very important to me and my constituents.

Can you elaborate on your thoughts on the new Rural Innovation Fund and how it will better meet the needs of rural areas compared to the Rural Housing and Economic Development program?

Do you intend to submit authorizing language for the program?

Answer. The Rural Innovation Fund (RIF) will use States and federally-recognized tribes as laboratories of innovation for addressing housing needs in communities with populations less than 2,500. HUD anticipates that partnerships of States or tribes with local governments and non-profit organizations, through a competitive process that requires coordinated planning, will be the key to innovation and collaborative successes in addressing local housing needs, including energy efficiency and other aspects of sustainability.

Relative to the Rural Housing and Economic Development, RIF would be targeted toward areas of concentrated rural housing distress and community poverty that have good prospects for sustained viability through bold strategies and a one-time Federal investment. RIF will enable rural communities to transform in response to ongoing changes in the structure of agricultural production, expanding metropolitan influences and digital connectivity. The emphasis on State-local partnerships and coordinated planning to leverage local assets will be key to its success. Through its proposed Transformation Initiative, HUD will study the effectiveness of varying RIF-funded strategies to assess their success and factors affecting their ability to be replicated in other communities.

HUD will submit authorizing language for the program.

REORGANIZING

Question. Reorganizing and modernizing HUD is long overdue and I commend your focus on it.

Besides funding resources, what else can we do to help you succeed while ensuring appropriate controls to avoid some of the abuses of the past?

Do you anticipate that your reorganization of HUD will include changing the structure of the organization to break down some of the silos that exist between such offices as public housing and community development?

Due to concerns about HUD's approach to staffing, the Congress directed the National Academy of Public Administration (NAPA) to evaluate HUD's ability to develop appropriate staffing requirements. NAPA recommended that HUD adopt a management approach that bases staff estimates and allocations on the level of work and the specific location where it is to be performed. HUD committed to NAPA's recommendation by developing its "Resource Estimation and Allocation Process" (REAP).

How will you ensure that HUD staffing levels and allocations match program needs so resources are not misallocated as they occurred several years ago? Are you implementing the REAP process?

Answer. Congressional support of HUD's fiscal year 2010 budget—which proposes to put in place systemic reform and policy innovation, as well as new kinds of partnerships and collaboration—is instrumental in helping the Department succeed. In particular, congressional acceptance conceptually, in addition, of course, to an appropriate level of funding, to HUD's Transformation Initiative is essential. The Transformation Initiative's comprehensive approach—via research and evaluation, major demonstrations, enhanced technical assistance and capacity building, and next generation technology investments—in addressing operational challenges arising from internal resources and structural constraints will help build bridges between the silos that exist, often for legitimate reasons, as the Department addresses housing and urban development problems facing this Nation. Additionally, two major organizational changes—creation of a Chief Operating Officer (COO) position and an Office of Strategic Planning and Management—are proposed to implement the broad transformation and renewal of the Department. The COO, operating within the Office of the Deputy Secretary, will ensure strategic and collaborative decisionmaking within HUD's operations. The new Office of Strategic Planning and Management will reinvigorate the strategic planning process, streamline program and support functions, and create ownership and accountability for performance across the Department.

Integral to these efforts is the Resource Estimation and Allocation Process (REAP) methodology, which helps the Department estimate its FTE needs and their distribution. REAP was implemented in 2000 and continues in operation. Initially conducted from June 2000 through December 2001, REAP baseline studies covered the entire Department. REAP refresher studies began in June 2003 and were completed in November 2004. The REAP baseline is updated periodically based on changes in organization, operating processes, and legislation/regulations. REAP's estimates are based on workload requirements and REAP is one tool the Department employs to ensure that HUD staffing levels and allocations match program needs and resources are not misallocated.

ELIMINATING AND CONSOLIDATING PROGRAMS

Question. The budget request proposes to eliminate or consolidate 27 HUD programs. First, how much money do these 27 programs represent on an annual basis?

Answer. In its fiscal year 2010 budget request, HUD proposes to eliminate or consolidate 27 programs. A list of the programs is copied below and was published as appendix B in HUD's 2010 budget overview document in May 2009. Fourteen Technical Assistance, Demonstration and research programs are proposed to be consolidated in the Transformation Initiative. Four university programs are proposed to be consolidated in the CDBG University Community Fund. Five line items are eliminated but remain an eligible use of funding. Credit subsidy funding for section 108 is proposed to be eliminated but not loan guarantees. The American Dream Downpayment Initiative and Brownfields Economic Development Initiative Programs are proposed to be eliminated. The program eliminations are not large amounts of funding but this effort streamlines and improves the efforts of the Department. The fiscal year 2009 funding for eliminated programs totals $16 million but this amount does not reflect the overall prioritization of resources embedded in the total budget request.

Question. Second, if you are able to accomplish this, how many programs will the Department still have on its books?

Answer. If enacted as requested, HUD will have 27 appropriation accounts not including the proposed Transformation Initiative.

Question. Finally, to what degree are you and others in the administration looking across agencies to consolidate or eliminate duplicative programs?

Answer. HUD is actively seeking ways to expand interagency cooperation and to more efficiently and effectively provide services to the public. For example, HUD is working closely with the Department of Veterans Affairs to ensure affordable housing for veterans and is developing new efforts in cooperation with the Departments of Transportation, Energy and the Environmental Protection Agency to promote affordable, livable and sustainable living environments. HUD's proposed Sustainable Communities Initiative is an integral part of this cooperative effort.

FISCAL YEAR 2010 BUDGET PROGRAM ELIMINATIONS/STREAMLINING/CONSOLIDATIONS

[HUD's Fiscal Year 2010 Budget Eliminates or Consolidates 27 Programs]

Program	Reform Step Taken
American Dream Downpayment Initiative	Program eliminated
Section 108	Funding eliminated
Brownfields Economic Development Initiative	Funding eliminated
Tribal Colleges and Universities Program	Consolidated to University Community Fund
Historically Black Colleges and Universities	Consolidated to University Community Fund
Hispanic Serving Institutions Assisting Communities	Consolidated to University Community Fund
Alaska Native and Native Hawaiian Serving Institutions Assisting Communities.	Consolidated to University Community Fund
Public Housing Capital TA	Consolidated to Transformation Initiative
Native American Block Grant TA	Consolidated to Transformation Initiative
Native American TA	Consolidated to Transformation Initiative
Native Hawaiian TA	Consolidated to Transformation Initiative
Section 202 TA	Consolidated to Transformation Initiative
CDBG TA	Consolidated to Transformation Initiative
HOME TA	Consolidated to Transformation Initiative
HOME/CHDO TA	Consolidated to Transformation Initiative
HOPWA TA	Consolidated to Transformation Initiative
Elderly Leverage Financing Demonstration	Consolidated to Transformation Initiative
Disabled Leverage Financing Demonstration	Consolidated to Transformation Initiative
Nation's Veterans Demonstration	Consolidated to Transformation Initiative
Partnership for the Advancement of Technology in Housing	Consolidated to Transformation Initiative
Homeless Assistance Grants—Evaluation of Demonstration Program.	Consolidated to Transformation Initiative
Homeless Research	Consolidated to Transformation Initiative
Public Housing Resident Opportunity and Supportive Services.	Line item eliminated; now an eligible use of funds under another program
Elderly Conversion to Assisted Living/Emergency Repairs	Line item eliminated; now an eligible use of funds under another program
Elderly Housing Planning Grant	Line item eliminated; now an eligible use of funds under another program
FHEO Limited English Proficiency Program	Line item eliminated; now an eligible use of funds under another program
Office of Healthy Homes/Communication and Outreach to Potential Applicants.	Line item eliminated; now an eligible use of funds under another program

EARLY CHILDHOOD DEVELOPMENT

Question. Early childhood development has been a strong interest to me for several years and I have initiated and supported a number of efforts to raise awareness and provide resources for this critical need.

While the Federal Government and others have provided resources to help operate early childhood development centers and programs, I have heard that there are significant needs for capital funding to help build, retrofit, or repair early childhood development centers.

There is interest among some in Congress to establish a new program at HHS to provide capital funding for these centers.

Is there a need for those families being served by HUD programs for capital funding for childhood development centers? How is HUD addressing early childhood development needs—both capital and operating—for the families it serves in Public and Assisted Housing, and projects that serve the homeless?

Answer. *Homeless Assistance Grants.*—HUD's homeless programs currently allow communities to prioritize projects in their annual Continuum of Care applications based on stated needs in the community. These needs may include specific projects for childhood development centers that serve families who are homeless or may include supportive service funds for child care related services as part of a larger overall budget for a housing program serving families with children. Because HUD's focus has been on the development of housing for homeless persons, capital needs for childhood development projects are not generally part of a community's application. However, this does not mean that the need does not exist in the community or that a source for capital funding for these projects would not be beneficial to communities. On the contrary, homeless families often report child care as a barrier to maintaining affordable housing. Questions regarding child care and childhood development are included in the most effective assessment tools used by programs that serve homeless families. Communities are strongly encouraged to meet local childhood development needs by using other mainstream resources available for this purpose to assist homeless families.

CDBG.—Both the construction and operation of childhood development centers is an eligible activity under the Community Development Block Grant (CDBG) program. Construction can include new facilities as well as the rehabilitation of existing structures for use as childhood development centers. CDBG funds can also be used to acquire properties for such purposes either through purchase or long term lease. In addition, operating costs can be paid as an eligible public service under CDBG. The following table indicates the CDBG amounts that grantees have identified as having been expended for these and related purposes for fiscal year 2008. These amounts likely understate CDBG contributions to these activities as grantees may identify such costs as general public facilities and public service activities or the child care component may be part of a community center.

Fiscal Year	Child Care Facilities Construction	Youth Centers and Facilities	Abused and Neglected Children Facilities	Child Care Services and Operation
2008	$12,944,196.69	$12,815,438.05	$1,898,493.86	$20,273,143.06

SUSTAINABLE COMMUNITIES

Question. Your Sustainable Communities initiative seeks to link housing and transportation by working with the Department of Transportation (DOT) and EPA. Can you elaborate on your long-term vision for this initiative? How will this be effectively coordinated among the agencies?

What role will the White House play in this initiative? Why is only HUD providing money for this initiative? Do you anticipate that the other agencies will provide funding?

Will the other agencies try to link up existing programs to the Sustainable Communities initiative? For example, DOT's Transportation, Community and System Preservation Program was established several years ago to help States and local governments accomplish "smarter growth," more compact development.

Answer. *HUD's Long-term Vision.*—Our long-term vision is to create a new paradigm of coordinated housing and transportation investments in local communities, that will lower the combined cost of housing and transportation for households and support a wider range of housing opportunities near transit. Through the Partnership for Sustainable Communities HUD, EPA and DOT have jointly adopted six sustainability principles which embody this vision. HUD is committed to mainstreaming these principles wherever feasible into the Department's policies and programs, through its existing competitive and formula grant programs, its mortgage financing programs, as well as through its rental assistance programs.

In addition to these on-going programs, we have proposed several place-based initiatives that provide opportunities for making communities more sustainable, affordable and livable. These include HUD's proposed Transforming Rental Assistance initiative, Choice Neighborhoods program. These place-based initiatives will require cross-departmental collaboration in order to take advantage of the expertise that lies in several program offices and ensure that funds from one program are designed to be leveraged by another. Ultimately, HUD is seeking to establish new or improve existing programs that provide consistent and continuous support at the building, neighborhood, community and regional scales.

Coordination With Other Agencies.—As you know we have created a new Partnership for Sustainable communities with DOT and EPA. This has been an extraordinarily productive relationship. We have formed a collaborative leadership team that meets at least weekly to manage and guide the activities of the Partnership and to build a shared understanding of the goals of this initiative. The three agencies have adopted a joint work plan, and will continue to meet regularly to set priorities and coordinate activities. Deputy Secretary Ron Sims has also convened regular meetings of senior agency leadership to ensure that principals are guiding the partnership.

We will continue to work in interagency teams to allocate discretionary funding for planning grants, technical assistance and capital grants (see response to the following question for more on our approach to managing funding). We also intend to work together to support a shared "one-stop shop" to assist State, regional and local stakeholders in identifying potential Federal funding sources to plan and implement sustainable and livable communities principles.

Coordination With the White House.—We are working closely with the White House Office of Urban Affairs, and other key White House offices, including the Council on Environmental Quality, the National Economic Council, and the Domestic Policy Council, to ensure that the Sustainable Communities Initiative is supportive of and coordinated with other administration priorities.

Funding From Other Agencies.—This is a question best addressed to the other agencies, but we are optimistic that HUD funds will be matched by DOT and EPA for livability and sustainability initiatives in future years.

Will the other agencies link existing programs to the initiative? We're very pleased to see that this is already happening.

HECM

Question. The administration's request for about $800 million to make up for projected shortfalls in the Home Equity Conversion Mortgage (HECM) program marks the first time in the program's history that the program will need a taxpayer-funded bailout.

Treasury's Comptroller of the Currency recently warned that tougher oversight for the program may be needed and stated in a speech that the program had "some of the same characteristics as the riskiest types of subprime mortgages—and that should set off alarm bells."

Do you agree with the Comptroller's views?

What administrative and regulatory steps are you taking or planning to take to prevent potential fraud in the HECM program?

Answer. The Comptroller's concerns are NOT applicable to FHA's reverse mortgage program, which is very tightly regulated. The Comptroller was expressing concerns about proprietary reverse mortgage programs. Furthermore, the FHA HECM program has no characteristics that are similar to subprime loans.

We are discussing a variety of innovative changes to the program—not based on the Comptroller's comments, per se, but on our own experience. For example, we will be proposing that lenders perform a financial assessment of all borrowers considering a HECM, to ensure that the proceeds from the reverse mortgage are adequate to meet the borrower's financial needs, including any routine and recurring obligations, such as tax and insurance payments. If the HECM and other sources of income are NOT sufficient, the lender and borrower will have several options to consider before determining that the HECM may or may not meet the consumer's needs. We are also considering some changes to the HECM counselor and HECM appraiser selection process, to assure that there are no conflicts of interest between or undue influence placed on the individuals who serve as meaningful risk controls within the origination process.

QUESTIONS SUBMITTED BY SENATOR SUSAN COLLINS

TENANT-BASED SECTION 8

Question. The Tenant-Based section 8 program is an important affordable housing program that provides vouchers to low-income families, seniors, and disabled individuals, helping them to meet the cost of safe, decent housing. Unfortunately, nearly all housing agencies across the State of Maine have stopped accepting applicants for section 8 vouchers due to extended waitlists, which, on average, are experiencing at least a 1 year wait, and in some cases have reached a 5 year wait.

I have consistently supported increased funding for the section 8 program. We face a renewed sense of urgency to adequately fund this program, however, as the housing crisis and economic recession have left more and more individuals and families in need of assistance. During this critical time in our economy, what steps does the administration plan to take to meet the growing need for housing assistance?

Answer. The 2010 budget reflects a commitment to maintain leasing levels as of December 2008 by requesting a net increase of $1.2 billion above the 2009 enacted amounts. In fiscal year 2009, the Tenant-Based section 8 program is about 31 percent of HUD's total Discretionary budget authority. The 2010 budget request allows Public Housing Authorities (PHAs) to better utilize their funds to serve more families by improving the allocation formula to reflect the most current costs and by offsetting allocations based on unused balances and reallocating funds to PHAs based on need to ensure that families receiving assistance are maintained as of December 2008.

The Department is aware of long waiting lists among PHAs due to a decreasing attrition rates among program participants reflecting a weak economy which means less families are leaving the program compared to prior years. However, with the proposed budget increase in 2010, the Department will fund the renewal of about 57,000 incremental vouchers provided through various appropriation bills between 2008 and 2009. This will allow PHAs to lease additional units through special purpose vouchers. The administration intends to renew all special purpose vouchers and keep them in use for their original purposes.

HOMELESSNESS IN RURAL REGIONS

Question. The current state of our economy has caused a significant increase in the number of people staying in shelters. In 2008, Maine experienced a 13 percent increase in the number of shelter beds filled per night over the previous year and the numbers continue to rise. With section 8 waitlists closed and the housing market in crisis, people are left with few options for affordable housing. The unavailability of affordable housing is even more concerning in rural areas where there are considerably fewer shelters. In these situations, people and families often sleep in cars or reside with friends. What efforts does this administration plan to take to address the increasing number of people staying in shelters? How will the administration meet the needs of homeless populations in rural regions?

Answer. Through implementation of the Homelessness Prevention and rapid Re-Housing Program (HPRP) funded as part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), HUD is providing an unprecedented level of resources to prevent and end homelessness for individuals and families in local communities. This 3 year $1.5 billion program—allocated to 540 States, cities and counties—allows for two new types of interventions: prevention for those who are imminently at risk of becoming homeless and rapid re-housing for those already experiencing homelessness. Grantees are required to determine, based on local needs, how much of their allocation should go to each type of intervention and design programs to meet the needs identified. These types of interventions are flexible in nature, and will be especially important to rural communities where shelter capacity is often low. For example, a rural community may use a large proportion of their funds to prevent homelessness by providing short- or medium-term rental assistance and services to families on the verge of homelessness because a head of household has lost his or her job. This will alleviate pressure on the shelter system by helping to keep families in their homes.

In the longer term, HUD is also in the process of developing regulations based on the new Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, which consolidates and restructures HUD's homeless programs. In the new legislation, both prevention and rapid re-housing are eligible activities. HUD expects that, as HPRP begins to close out to meet the statutory 3 year expenditure deadline, the new HEARTH programs will be in place to allow communities to continue appropriately scaled versions of the prevention and rapid re-housing programs started under HPRP. Importantly, the HEARTH Act creates a new Rural Housing Stability program. This program will bring particular attention and resources to rural areas to prevent and confront homelessness. The HEARTH Act homelessness programs will provide communities with much-needed flexibility to assist families and individuals in a variety of homeless and near-homeless situations.

SUBCOMMITTEE RECESS

Senator MURRAY. This subcommittee will stand in recess until Thursday, June 18, when we will take testimony from Secretary LaHood.

[Whereupon, at 11 a.m., Thursday June 11, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2010

THURSDAY, JUNE 18, 2009

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:34 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Specter, Bond, Alexander, and Collins.

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

STATEMENT OF HON. RAY LAHOOD, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. The subcommittee will come to order. Senator Bond got the message on what to wear today. I see the Secretary and Senator Collins. I did too and I chose not to, just so you know.

Welcome to all of you. Welcome Secretary LaHood. Thank you so much for being here today.

In April of this year Secretary LaHood testified before this subcommittee about the American Recovery and Reinvestment Act. And I'm excited to say that billions of dollars included for transportation projects are now flowing into our communities across the country. In my home State of Washington over $500 million is beginning to move into projects from Seattle to Spokane creating jobs and boosting our economy.

Today though, we are going to focus on the President's fiscal year 2010 budget request for the Department of Transportation which is critical as we face the challenge of rebuilding our country's transportation infrastructure. And I am glad to see that the President's budget request reflects a renewed interest in improving the entire transportation system. And it recognizes that it takes many different modes of transportation to create an integrated national system.

The President's budget request includes: More than $51 billion for highways and transit; $1 billion to continue the investments in high speed rail that were started in the Recovery Act; $3.5 billion for airport investments; $1.5 billion for grants to Amtrak; $175 million to protect essential air service for smaller communities across the country; and $15 million for a new initiative within the Department of Homeland Security to improve the security, efficiency and capacity of our Nation's ports and waterways.

I also want to acknowledge the work that Secretary LaHood is doing in coordination with Secretary Donovan at the Department of Housing and Urban Development. Their partnership is an important first step toward helping communities make vital connections between workplaces, family homes and neighborhood schools. And although I'm glad to see important investments being made in the President's budget, I am also painfully aware that we have tough questions to answer this year.

We cannot face these challenges with ideas alone. We must start talking about concrete, realized solutions. The most pressing problem we face today is the looming bankruptcy of the Highway Trust Fund. The Trust Fund needs an estimated $5 to $7 billion before August of this year or we may see transportation projects come to a standstill, State budgets will be thrown into crisis and thousands of family wage jobs will be put in jeopardy.

In addition the Highway Trust Fund needs another $8 to $10 billion to support transportation programs through fiscal year 2010. As this subcommittee develops its bill for funding programs at the Department of Transportation we cannot allow the stability of the Highway Trust Fund to be called into question. Its stakes are too high for our States, our communities, families and commuters.

Yesterday the Department announced a general framework for extending transportation programs for 18 months, enacting major reforms to those programs and ensuring the short term solvency of the Highway Trust Fund. By offering this framework the Department's announcement is a step in the right direction. However, critical details are still missing and the Department has not yet offered specific ways to replenish the balance of the Highway Trust Fund.

Furthermore the Department's announcement offers very little insight into how it proposes to use cost benefit analysis, focus investments in metropolitan areas and promote this concept of livability. Although the Department is interested in tying together a short term fix for the Highway Trust Fund with reforms to our transportation programs, I do have some very serious concerns about that approach. I do not oppose on principle the effort to improve Federal transportation programs, but I don't want to allow debates over those reforms to prevent us from saving the Highway Trust Fund in a timely manner.

The time has come to discuss specific solutions to the short fall. And these discussions will require Congress to work closely with the administration. But this work requires more clarity and better communication than we've been getting so far.

Another area of concern for this subcommittee is the safety of our air transportation system. Although air transportation continues to be one of the safest ways of traveling, the crash of Colgan Flight 3407 is a reminder that the regulations, inspections and procedures of the Federal Aviation Administration are all in the service of protecting human life. The FAA recently announced it is requiring its safety inspectors to focus their efforts on determining if regional air carriers are complying with Federal requirements for pilot training.

But the crash near Buffalo, New York raises important questions about FAA requirements related to pilot fatigue and qualifications and about the relationship between legacy and regional air carriers.

I know earlier this week the Department and the FAA gathered representatives from air carriers and other industry groups to participate in a summit on airline safety. That summit was designed to address many different aspects of aviation safety. And I will be interested to hear what the Secretary has learned from that meeting.

Finally, I want to express my concern about the administration's proposal for a national infrastructure bank. Investing in our infrastructure is critical. But we need to ensure that it is financed responsibly. Whether this bank is requested from funds appropriated by this subcommittee or included in a proposal for the reauthorization for service transportation programs, I think there are a lot of unanswered questions that need to be addressed.

Again, Secretary LaHood, thank you so much for appearing before us today to provide some additional detail and insight into the President's budget request. And with that I will turn it over to my partner and ranking member, Senator Bond for his opening remarks.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you, Madam Chair. And I agree with the concerns you raised. I welcome an old friend, Secretary LaHood.

I thank him for appearing again before our subcommittee and taking on this very challenging project as we both agree. I think it is wise as a fellow Midwesterner that he knows in hot weather these suits are much more comfortable. And we don't demand adherence. That's the beauty of the two party system, some wear suits and some—anyhow.

To be serious, Mr. Secretary, there appears to be a troublesome communication gap between the administration, Department of Transportation, OMB and the Senate. We're hearing about major policy initiatives after they've been reported without a heads up from the Office of Governmental Affairs, policy or public affairs. In fact the general public had access to the information before many of us did.

In most cases however, we're not hearing anything substantive regarding the transportation budget from the administration. They're going to make—they're going to do all these wonderful things without raising gas taxes, without raising taxes, with no information from OMB how it might be paid for, and that, I might add, with no policy guidance or direction from the Department.

The budget submission that we're trying to work with, as I have indicated to you, lacks some very important details. We don't know how to put this baby together. Because we don't know where the numbers are or how it's all going to work.

We know the devil is in the details in all these things. But these are really big details when a major policy implications for the Nation and we're running out of time to get the answers we need. In fact we will be getting our 302(b) allocations today which will dictate what this subcommittee can or cannot fund.

And I'll tell you the prospects do not look good. I don't see how we, from what I think we're going to get, I don't know how we can do what we have to do. But we need some guidance from you.

The budget has, before, has the same boiler plate language for FHWA, Federal Motor Carrier Safety Administration, FMCSA, National Highway Safety Administration, NHTSA and the Federal Transit Administration, FTA. The language reads, "The administration is developing a comprehensive approach for a surface transportation authorization. Consequently the budget contains no policy recommendation for programs subject to reauthorization including Federal aid highways. Instead the budget displays baseline funding levels for all surface programs."

As we've discussed we got to find out from OMB what these decisions are. And we hope that you will be able to get those. And we will be able to get those shortly. So we can begin work.

I know there are many difficult transportation challenges facing the Nation. But we can't refuse to deal with them or put off the tough decisions because we've got a schedule that we have to meet for this fall. I say only have facetiously that footnote to the boiler plate the budget documents should say, we still don't know how to pay for highways.

Getting the $36 billion in general funds is probably not going to happen. And the highway number is likely not to be baseline funding from what we know at this point. I hope that will change.

We've been given some other important information since receiving the budget. And that's not good news. The trust fund is going bust, not just for 2010, but for 2009.

Three weeks after getting the budget staff got a briefing that the numbers in the budget for the Highway Trust Fund needed to be updated due to climbing cash balances in the Highway account of the Highway Trust Fund which will cause the fund to run out of money to handle day to day reimbursements. The Highway Trust Fund is now scheduled to fall below $4 billion around July 3. And DOT has determined that at least a $4 billion balance is needed in the Highway account to manage cash flows.

Sometime in the near future we're told DOT will give the State departments of transportation 8 weeks' notice of a change in reimbursement policy with a balance falling below zero in mid August. It won't be possible for us to complete our bill and conference by that time. So some solutions have to begin to be debated right now.

Everybody said we wanted to get jobs which were shovel ready. And I was very disappointed that the stimulus package that I felt was flawed and could not vote for did not deal with the rescission in highway funding, that $8 billion rescission. And the shortfall is something that if you want shovel ready projects there's nothing like contracts that have already been completed the environmental work, the preparation to keep people working. We should have been continuing to build highways.

In testimony before our House counterparts on June 4, you testified you're working on solutions to fund $5 to $7 billion that will be paid for with offsets. I'd be interested to see what OMB comes up with since that time as well as what the administration believes it will need to do to meet the projected $8 to $10 billion shortfall for the Highway Trust Fund in 2010. As I said we'll be voting on allocations later today, a 302(b) allocation in BA and outlays will at this point not sustain your requested level of general funds at $36 billion with all of the other expected priorities of the bill.

Another problem I've been talking about and I've asked you about it. Our April 30 hearing on the American Recovery and Reinvestment Act is the rescissions as I mentioned. They'll be September 30; they'll be a looming $8.7 billion if nothing is done.

Highway funds we thought were going to ARRA to create job stimulation. But without solving the rescission problem there will be massive losses of jobs in the late summer when we need to be putting those projects to work, creating and continuing those jobs and building the highways we badly need. FHWA has helpfully advised our staff that, "This is a very complicated rescission to calculate. And FHWA staff is working hard on it. Although we know the total amount to be rescinded from each State, we still cannot determine the programmatic distribution which many of you want to know."

In other words the Department does know how to make the rescissions or whether they can make rescissions called for or if there's going to be a fix. This is information I hope we will be able to get from OMB. So we can move forward.

Now I also understand that funding for high speed rail at $1 billion over the next 5 years is the highest priority for the Department and the administration to supplement the $8 billion in ARRA funding already. The high speed rail guidance that was recently announced has little to spell out how the additional funds will be used. And what the goals for a national rail plan due out in October this year, will try to achieve in terms of a vision.

GAO has reported it is continuing to work on high speed rail oversight. In testimony before the House Appropriations Committee, GAO said, "High speed rail does not offer a quick or simple solution to relieving congestion on our Nation's highways and airways. High speed rail projects are costly, risky, take years to develop and build and require substantial upfront public investment as well as potentially long term operating subsidies."

GAO goes on further to say that there are potential long term benefits of high speed rail. However determining which of any of the proposed high speed rail projects should be built will require decisionmakers to be able to determine a project's economic viability. Meaning whether the total social benefits, offset or justify it, total social cost and what the relative benefits and costs of the alternatives will be.

I will apologize because in the first round of questions I'm going to have to go to an Energy and Public Works mark up this morning which is considering a Clean Water Act amendment proposal that will eliminate the navigable waters limitation on the reach of corps of engineers and EPA guidelines over waters. As a result if this is passed and I have grave concerns about it. It will mean every pond and every puddle in the United States will be subject to Federal guidance.

Every time we have a heavy rain storm the terrace behind my garage in Missouri floods. And I have to get a sump pump to pump it out. Now will I have to get an EIS to pump out that pond that develops?

Senator MURRAY. Are there fish in it?

Senator BOND. Pardon?

Senator MURRAY. Are there fish in it?

Senator BOND. No, mosquitoes. And that's why I need to pump it out. But the problem is if this goes through every single puddle that a high speed rail project crosses will have to get an EIS.

That can add 10 years to a major high speed rail project. It's just a suggestion that we might want to consider when voting on it. Anyhow I digress.

My concern is that there is not sufficient funding, truly, to reduce congestion on our Nation's highways and airports. If as the current guidance outlines, the money goes to so many different projects. We'll be spreading the money so thin and wide we'll have nothing to show for it. Frankly, what will an additional $1 billion per year in grants do that the previous $8 billion did not?

Has the administration determined how the question of operating assistance will be addressed on these projects? We should not be paying to build it and then paying a heavy load continually to operate it. There should be conditions on grants to those communities on who and how they plan to pay for operating high speed rail in order to use these tax dollars.

And another major issue that's a real problem in my State with regard to Mexican trucks. We have discussed this. And I'm awaiting additional information from the Department on what, if anything can be done about the Mexican Government's retaliation over the terms of NAFTA on tariffs to the tune of $2.4 billion of U.S. agricultural and manufacturing exports.

As you know, Mr. Secretary, over $1.5 billion in manufactured products and $900 million in agricultural products are impacted by the retaliation. This is something I warned about unsuccessfully every time we've had this debate. It was forced through, signed into law.

And the Mexican Government took the steps that they were totally authorized to take. And according to pork producers the retaliation puts over 12,000 "Ag" jobs and 14,000 manufacturing jobs at risk. We need to know if their plans to live up to the terms of NAFTA and open the border.

Turning to aviation, I am pleased to see that the airport improvement program is funded at a level that is both realistic and sufficient to fund the Nation's airport construction needs which is welcome change from the past administrations, both Republican and Democrat. Unfortunately the good news ends there with increased funding needs for NextGen, a new contract pending for the air traffic controllers and further issues being exposed in the area of aviation's safety. There are a number of top budgetary choices and policy challenges facing the Department.

Mr. Secretary, as you can see we really need some realistic decisionmaking, especially in regards to highways and rescissions. We're not likely to have the funds we need to meet all the Department of Transportation and Department of Housing and Urban Development needs. But the more we work together with the various authorizing committees and the administration in an open, bipartisan manner, the more likely we'll find those solutions.

After all transportation is something that both parties recognize is good for the Nation. And we want to have good common sense solution. Our transportation infrastructure like our highways, roads and bridges are the life blood of our economy, the key to future economic growth and economic recovery. We can't afford to pass the buck because solving these problems is critical to creating jobs, safer travel and economic development.

I thank you, Madam Chair. I apologize for the length of the statement. But I wanted to lay out these concerns. Thank you again, Mr. Secretary for being here.

Senator MURRAY. Thanks very much, Senator Bond. Senator Collins.

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you very much, Madam Chairman. First let me commend you for allowing your good taste to overcome peer pressure.

Senator MURRAY. Absolutely.

Senator COLLINS. To wear a seersucker suit today. That is impressive as well.

Senator BOND. Now that you bowed to peer pressure.

Senator COLLINS. I did indeed.

Senator BOND. That's good.

Senator COLLINS. Let me say to you and Senator Bond that I am delighted to be a new member of your subcommittee. And I look forward to working with both of you on transportation issues and the other important jurisdiction of this subcommittee.

Maine, like most States has a long backlog of deteriorating roads and bridges. And I was delighted a couple of weeks ago to meet with the head of a road construction company from Maine who told me that as a result of the stimulus bill there are 100 people working doing repaving who otherwise would not have jobs. So I believe we're seeing some early, very positive results of the stimulus package with regard to infrastructure improvements that are so needed.

Nevertheless as both the chairman and the ranking member have pointed out, there is an awful lot to be done. I'm eager, Mr. Secretary, to have you come to Maine and to visit the University of Maine. And see the work that's being done on composites to be used to build bridges that will last longer and offer other advantages.

I'm also pleased that the administration has provided a substantial increase in the essential air service funding. This program is critical for smaller rural States, like Maine, to ensure that the rural regions receive commercial airline service. There are many other important issues that we will discuss today. But I want you to know, Mr. Secretary, that the number one transportation issue in my State is that of truck weights. And I look forward to discussing that issue further with you.

Again, Mr. Secretary, I couldn't help but think how different it must be for you to be sitting on that side of the dais. And I think we're very fortunate to have an individual with your background and understanding of Congress in such an important role in President Obama's cabinet. Thank you, Madam Chairman.

Senator MURRAY. Absolutely. Thank you very much, and Senator Alexander, opening statement.

STATEMENT OF SENATOR LAMAR ALEXANDER

Senator ALEXANDER. Thanks, Madam Chairman. Welcome, Mr. Secretary, look forward to working with you.

I wanted to just call to your attention. The other day they shut down an 8 mile section of Interstate 40 in Knoxville, one of the most heavily traveled interstates in Tennessee for 14 months. And they fixed it.

And usually it would have taken 3 to 4 years. It was called a Smart Fix program. And it was an example of more efficient use of our highways. And we'll have a chance to discuss more, but one of the thoughts I've had for a few years is why don't we have a Federal rating for highway use efficiency?

When we rate cars, you know, by fuel efficiency. And one of your predecessors told me that 40 or 50 percent of our traffic jams are caused by the inefficient use of highways by, you know, trying to fix them at 4 o'clock in the afternoon or wrecks that don't get pulled off the road. I think if you had, Senator Bond and I have both been Governors.

I think if you had a list of States 1 to 50 rated based upon their highway efficiency use and Tennessee were 50, somebody could get elected Governor just based on that. And you might see some changes in it. So it's just a thought I have.

I look forward to talking with you. And I appreciate the chance to make a comment.

Senator MURRAY. Thank you very much. Mr. Secretary, with that we will turn it over to you for your opening remarks.

STATEMENT OF HON. RAY LAHOOD

Secretary LAHOOD. Madam Chair and members of the subcommittee, thank you for the opportunity to discuss the administration's fiscal year 2010 budget request for the U.S. Department of Transportation.

The President seeks a total of $73.2 billion in budgetary resources. This funding level supports the President's ambitious agenda for revitalizing and enhancing our national transportation infrastructure. It's essential that we continue to invest in these assets to keep our highways and rails in good repair, keep our freight and maritime shipping lanes open and keep all modes of transportation operating as efficiently and safely as possible.

Safety always has been and must continue to be our chief concern. That's why over one-quarter of the Department's total budget request supports transportation safety. I want to highlight the President's fund request for some of our critical modes.

First, high speed and inner city passenger rail: As you know President Obama and Congress have made a historic $8 billion investment to jump start new rail corridors around the Nation. The President's budget proposes to fund a 5 year, $5 billion high speed rail State grant program.

This represents a major commitment by the Government to offer the traveling public a safe and sustainable alternative to driving and flying. The budget also includes $1.5 billion in grants to support Amtrak. When this is combined with the $1.3 billion provided in funding through the Recovery Act, Amtrak is poised at last to address its long standing capital needs.

With respect to aviation, the President's budget requests nearly $16 billion for the Federal Aviation Administration. This level will enable us to fund the FAA's highest priorities including $865 million to keep NextGen air transportation moving forward. With these resources FAA will also be able to fund additional air traffic control positions and invest in nearly 3,500 airport infrastructure projects at 1,500 airports.

The maritime industry also plays a vital role in our economy with nearly half of all U.S. foreign trade by value traveling by water. The President's budget seeks $346 million for the Maritime Administration. This includes $15 million for a new Presidential initiative to enable MARAD to work with the Department of Homeland Security on modernizing our inter mobile freight and infrastructure links that tie ports, highways and rail networks into a seamless transportation network.

I'm confident that the President's transportation budget for 2010 will help our Nation continue to develop our most vital transportation assets for the 21st century. Nevertheless one of the most significant challenges our Department faces going forward is the ability to identify sufficient resources to meet our goals. And provide the American people with the transportation system they need and deserve.

I'm grateful to Congress for providing more than $48 billion in transportation funding through the American Recovery and Reinvestment Act and proud of our tiger team effort in implementing the provisions in the Recovery Act. By working across organizational boundaries the team has been successful in meeting the Congressional deadlines. Every deadline has been met that was put in the law; the historic investment is making it possible for thousands of transportation projects around the country to get underway.

As a direct result we're helping to save or create good paying jobs that so many families and communities need right now. And we're rebuilding, retooling and revitalizing our airports, roads, bridges, ports, transit systems and more. But we must also recognize that the two primary funding sources the Department has long relied on fuel tax and airline ticket taxes are no longer sufficient.

As you know last year the Highway account of the Highway Trust Fund required an $8 billion cash transfer from the general fund in order to remain solvent. The current reduction in economic activity has made the problem of sustainability even more serious. We remain at risk for yet another cash shortfall in the Trust Fund as soon as mid to late August.

The administration has inherited a system that can no longer pay for itself. Clearly we cannot continue on this path. Therefore we're proposing an immediate 18-month Highway Reauthorization that will replenish the Highway Trust Fund.

Critical reforms are needed as a part of this process to help us better invest, to make better investment decisions including focusing on smarter investments in metropolitan areas promoting the concept of livability to more closely link home and work. I urge Congress to pass this measure before the August recess so that

States do not risk losing the vital transportation funding they need and expect. I assure you we are working on a long-term solution.

PREPARED STATEMENT

We're pledged to work with you and every Member of Congress on the full reauthorization that best meets the needs of the country. And I'm confident we'll find the necessary solutions. Thank you for the opportunity. I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. RAY LAHOOD

Madam Chairman, members of the subcommittee, thank you for the opportunity to appear before you today to discuss the administration's fiscal year 2010 budget request for the U.S. Department of Transportation. The President's request totals $73.2 billion in budgetary resources, which will support major investments in transportation nationwide that are vital to the health of our economy and the American way of life.

The President's budget continues record level investments in our Nation's transportation infrastructure. At the same time, the budget reflects the growing recognition that traditional gasoline taxes and airline ticket taxes, two of the major sources of funding for the Department's surface transportation and aviation programs, respectively, are outdated and not adequate to support 21st century transportation needs.

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009. I want to thank Congress for providing more than $48 billion in vital transportation funding to both help bring about economic recovery and make lasting investments in our Nation's infrastructure. This is both an investment in our transportation infrastructure and in jobs for Americans. The resources made available from the general fund for transportation infrastructure in the Recovery Act will help to rebuild, retool, and revitalize the vast network of roads, tunnels, bridges, rail systems, airports, and waterways that we have long depended on to keep the economy moving and growing. I am very proud of our TIGER Team effort in implementing the provisions in the Recovery Act. By working across organizational boundaries, the Team has been successful in meeting the Congressional deadlines.

America's transportation systems are the lifeblood of our economy, and when properly maintained can be a catalyst for economic growth. These systems allow people to get to jobs and allow businesses to access wider pools of labor, suppliers, and customers. The ability to move freight efficiently will be critical to our economic recovery. Without efficient transportation routes, economies stagnate. We need to protect, preserve, and invest in our transportation infrastructure to ensure that it can meet our present and future demands.

Above all, we must make our transportation systems safe; where public safety is concerned there is no room for compromise. Over $18.5 billion, or one-quarter of the total request for the Department, will support transportation safety. I am mindful that safety—on the road, on the rails, in the air, and on the water—has always been, and must continue to be, the central focus of the Department.

SURFACE TRANSPORTATION PROGRAMS

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA–LU) expires on September 30, 2009. The administration is developing a comprehensive approach for surface transportation reauthorization. Consequently, the budget contains no policy recommendations for programs subject to reauthorization, including those for the Federal Highway Administration, the Federal Motor Carrier Safety Administration, the National Highway Traffic Safety Administration, and the Federal Transit Administration. Instead, the budget displays baseline funding levels for all surface transportation programs.

An overarching concern for surface transportation funding is the status of the Highway Trust Fund. The funding levels set in SAFETEA–LU for fiscal years 2005 through 2009 were designed to spend down the accumulated balance in the Highway Account of the Highway Trust Fund. This has left the Highway Account unable to sustain spending from current highway programs into fiscal year 2010. The sustainability issue became apparent when in 2008 the Highway Trust Fund required an $8 billion cash transfer from the general fund in order to remain solvent.

The current reduction in economic activity has only exacerbated the problem of sustainability for fiscal year 2010, and we remain at risk of yet another cash shortfall later in fiscal year 2009. At my direction, the Department has shared our internal projections on the status of Highway Trust Fund with you and your staff. As you all know, DOT's highway programs continue to pay out more than the receipts coming into the Highway Trust Fund.

To highlight the growing imbalance between projected Highway Trust Fund revenues and baseline spending, the fiscal year 2010 budget includes lowered Highway Trust Fund funding levels for certain programs (i.e., Federal-aid Highways and Transit Formula and Bus Grants). Such funding reductions would be necessary to maintain positive annual cash balances. For these programs, the budget also includes discretionary budget authority appropriated from the general fund equal to the difference between the baseline funding and the lowered Highway Trust Fund funding levels.

Under the funding scenario presented in the fiscal year 2010 budget, the Federal Motor Carrier Safety Administration and the National Highway Traffic Safety Administration would be funded entirely from the Highway Trust Fund. The split between trust fund and general fund expenditures in all accounts funded by the Highway Trust Fund is for presentation purposes only and not a meant to be a policy recommendation on the part of the administration.

Using the Federal Highway Administration as an example, the baseline funding level presented in the fiscal year 2010 budget is $41.8 billion, a 1 percent increase from the amount provided by Congress in the fiscal year 2009 Omnibus Appropriations Act. However, the Highway Trust Fund can only support an estimated $5.7 billion in contract authority, and an equivalent obligation limitation. The balance—$36.1 billion—is assumed to be provided from a new discretionary general fund appropriation.

Does this mean that we will have a $36 billion shortfall in the Highway Account of the trust fund in fiscal year 2010? No. During any given year, most of the payments from the Highway Trust Fund are for funding commitments that were made in previous years. By fiscal year 2010, the majority of revenues that will be deposited into the Highway Trust Fund will be needed to cover cash outlays from those prior-year commitments.

The President's fiscal year 2010 budget reflects the fact that over the long term, we will need to identify a new funding solution to ensure that we continue to meet our Federal surface transportation infrastructure investment needs. However, I need to emphasize that this budget is a "placeholder" and this presentation does not reflect the administration's recommended funding levels or approach for the next surface transportation reauthorization.

The administration inherited a difficult problem—a system that can no longer pay for itself. There simply is not enough money in the Highway Trust Fund to do what we need to do. The fiscal year 2010 budget frames the challenging spending decisions facing policymakers. Clearly as we approach the reauthorization of surface transportation programs, we will need to think creatively as we search for sustainable funding mechanisms.

I want to assure you that we will soon have a plan to address the potential Trust Fund shortfall this summer. We believe very strongly that any Trust Fund fix must be paid for. We also believe that any solution must be tied to reform of the current highway program to make it more performance-based and accountable, such as improving safety or improving the livability of our communities—two priorities for me.

FEDERAL AVIATION PROGRAMS

The Federal Aviation Administration is in a similar situation as DOT's surface transportation programs in that its current authorization also expires at the end of the current fiscal year. The Vision 100—Century of Aviation Reauthorization Act originally expired at the end of fiscal year 2007, and since that time the Federal Aviation Administration has been operating under a series of short-term extensions. Current aviation taxes and expenditure authority are authorized through September 30, 2009.

The Airport and Airway Trust Fund provides all of the funding for the Federal Aviation Administration's airport improvement, facilities and equipment, and research and development activities, as well as approximately 70 percent of the Federal Aviation Administration's operations. As of the end of the current fiscal year, DOT estimates that the Airport and Airway Trust Fund will have a cash balance of approximately $9.5 billion and an uncommitted balance of $929 million. The uncommitted balance takes into account the amount of cash needed to cover commitments that have already been made. As such, the uncommitted balance is generally used as an estimate of available resources for new commitments. The fiscal year 2010 budget projects that the uncommitted balance will drop to $334 million by the end of fiscal year 2010. Although the budget estimates a small uncommitted balance in fiscal year 2010, the end of year 2010 cash balance is estimated to be $8.75 billion and the Federal Aviation Administration will have more than sufficient resources to implement its programs in fiscal year 2010.

The President's budget requests nearly $16 billion for the Federal Aviation Administration in 2010. The budget also assumes some basic elements of a reauthorization proposal. The current financing system is based largely on aviation excise taxes that depend on the price of a passenger's airline ticket rather than the actual cost of moving flights through our Nation's aviation system. Starting in 2011, the budget assumes that the air traffic control system will be funded with direct charges levied on users of the system. While the budget does not include a detailed reauthorization proposal, the administration believes that the Federal Aviation Administration should move toward a model whereby the agency's funding is related to its costs, the financing burden is distributed more equitably, and funds are used to pay directly for services the users need. The administration recognizes that there are alternative ways to achieve its objectives, and wants to work with Congress and stakeholders to enact legislation that moves toward such a system.

Unlike the budget presentation for surface transportation programs, the fiscal year 2010 budget request of nearly $16 billion for the Federal Aviation Administration is not a "placeholder" and, in fact, would fund the Federal Aviation Administration's highest priority requirements.

The request includes $865 million for the Next Generation Air Transportation System (NextGen)—an increase of close to $170 million from the fiscal year 2009 enacted level. NextGen is an evolutionary process that will transform the way the national air transportation system operates. The outcome will be reduced congestion and delays, improved safety, and reduced noise and emissions.

In addition, the budget request includes funding to increase the number of air traffic controllers by 107 and the number of safety staff by 36. This will improve the Federal Aviation Administration's safety oversight function and meet its current need to continue to hire a new generation of air traffic controllers in advance of the anticipated retirements.

The budget request would provide $3.5 billion for the Airport Improvement Program. This level of funding will support an estimated 3,500 infrastructure projects at an estimated 1,500 airports, including the rehabilitation and maintenance of existing infrastructure, compliance with design standards, and improved airport capacity.

HIGH-SPEED AND INTERCITY PASSENGER RAIL

In the 20th century, the United States built highway and aviation networks that fueled unprecedented economic expansion, fostered new communities, and connected cities, towns and regions.

The President's fiscal year 2010 budget proposes to help address today's transportation challenges by investing in a world-class network of high-speed passenger rail corridors that connect communities across America. Building on the $8 billion provided for high-speed rail in the American Recovery and Reinvestment Act of 2009, the President's budget proposes to fund a 5 year, $5 billion high-speed rail State grant program. This represents a major commitment by the Federal Government to provide the traveling public with a viable alternative to driving and flying.

The budget also includes $1.5 billion in grants to support the National Railroad Passenger Corporation (Amtrak)—$572 million for operating grants and $930 million for capital and debt service grants. When combined with the $1.3 billion in funding provided for Amtrak under the American Recovery and Reinvestment Act, the fiscal year 2010 request will allow Amtrak to begin to address some of its long-standing capital requirements.

MARITIME PROGRAMS

The U.S. maritime industry plays an important role in today's global economy. In terms of the value of cargo, more than 48 percent of U.S. foreign trade and 6 percent of our Nation's domestic commerce travels by water. The fiscal year 2010 budget request includes $346 million for the Maritime Administration. This request fully funds the Maritime Security Program at $174 million and provides $153 million for Operations and Training, including a $12 million increase for the U.S. Merchant Marine Academy for operational and capital improvements.

In fiscal year 2009, the Maritime Administration took positive steps to address and remediate certain internal control issues related to budget implementation at the Academy. These steps include significant financial management reforms at the Academy and technical assistance for new Academy leadership. I have also directed MARAD to establish a "blue ribbon" panel of experts who will examine and report to me on the Academy's long-term capital improvement needs.

The budget also provides an increase of $15 million under MARAD Operations for a Presidential initiative to support integrated planning with the Department of Homeland Security for development and modernization of intermodal freight infrastructure that links coastal and inland ports to highway and rail networks.

The fiscal year 2010 request for the Saint Lawrence Seaway Development Corporation includes nearly $17 million for agency operations and fully funds the second year of the Seaway's 10-year Asset Renewal Program.

Before I conclude my testimony I also want to mention two other notable items in the President's fiscal year 2010 budget request for DOT. This request will enable the Pipeline and Hazardous Materials Safety Administration to fill 18 additional pipeline safety inspection and enforcement positions. This will bring the total number of inspection and enforcement positions up to 135 in fiscal year 2010, meeting the target in the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006.

Finally, the administration is committed to maintaining small communities' access to the National Airspace System. The budget provides $175 million for the Essential Air Service (EAS) program to fulfill current program requirements as demand for subsidized commercial air service increases. The budget drops an earlier proposal to restructure the eligibility criteria for airports to receive EAS funding, but also acknowledges that the program design must be updated and made more cost effective. The administration is committed to working with Congress to develop a more sustainable program that will provide better value for passengers and the American taxpayer.

Thank you for the opportunity to appear before you today to discuss the President's fiscal year 2010 budget proposal for the Department of Transportation. I believe that this proposal offers bold initiatives and charts a new course for transportation infrastructure investment in the United States over the years to come. I look forward to working with Congress and transportation stakeholders to make this reality.

I will be pleased to respond to your questions.

HIGHWAY TRUST FUND

Senator MURRAY. Thank you very much, Mr. Secretary. Let me just say that as you know most of the spending that comes out of the Highway Trust Fund over the coming year is going to be used to reimburse our States for projects that they actually developed a year or so ago. So basically most of today's spending from the Trust Fund was committed a long time ago.

We need to fix the Highway Trust Fund to make good on those commitments that are now already out there. Our home States have been spending their own funds on these eligible transportation projects with the assurance that they're going to be reimbursed. So if we don't make good on our promise than we're going to throw our States into a financial crisis right when many of them are already facing really distressful times during this economic recession.

Now I just heard you testify that it's necessary to include reforms to the transportation programs as part of the legislation to fix the Highway Trust Fund before the August break which I think we've got 5 weeks left of session to do that. Those reforms are important. They affect future decisions about transportation projects and not just the reimbursements that are going to occur over the coming months.

So let me ask you why is it necessary to reform the transportation programs in order to save the Highway Trust Fund over the short term?

Secretary LAHOOD. We at least need to have a discussion about this. Our priority is to work with OMB and the Congress to find the money to plug the Highway Trust Fund for the next 18 months. During our discussions we should at least talk about the way forward and begin discussions about some reforms.

Our priority will be to work with all of you to plug the Highway Trust Fund, to find the money to do it and to pay for it. We'd like for part of our discussion to be about reforms because we know that over the next 18 months as we work with Congress, we're going to be talking about reforming the transportation program.

I want to be clear on this. We're going to work with all of you to find the money to plug the Trust Fund, to pay for it.

Senator MURRAY. OK.

Secretary LAHOOD. During our discussions we'd like to talk about reform.

Senator MURRAY. OK. But one of my concerns—and you're raising some interesting points about transportation and supporting livable communities. It sounds good.

But those are major reforms to our transportation system that you're asking us to define in a few short weeks of Congress and pass by August to get the Highway Trust Fund fixed. So I mean, do you think Congress can enact major reforms in the 5 weeks we have before the end?

Secretary LAHOOD. From the day that the President was sworn in on January 20 through February 14 the Congress passed a $780 billion Economic Recovery Plan. The answer is that we can have discussions. Whether we can get to the point where we can include these as a part of our fix for the Highway Trust Fund, we'll have to see.

Senator MURRAY. But here's——

Secretary LAHOOD. Madam Chair, let's throw it out there and see if we can have a discussion. That's all.

Senator MURRAY. Yes. I think discussions about how we reform our transportation system are important. But as a realist I know that we've been sent a judicial nominee. We have appropriations mark ups to get out. The President wants us to do health care reform. And we basically have 5 weeks of session.

So I'm very concerned that the Highway Trust Fund being put into the mix of some major policy discussions won't see the light of day. And what we'll end up with is our States who are waiting for this money will get caught in that. And that's what I'm asking you to understand.

Secretary LAHOOD. Our No. 1 priority is to fix the Highway Trust Fund, to pay for it, to find the money. Along the way here if we can have discussions about these other things, I think we should.

Senator MURRAY. Conversations are great. Passing legislation is hard. I just want to make sure we're all committed to getting the Highway Trust Fund fixed by August.

Secretary LAHOOD. You have my commitment to do that.

Senator MURRAY. OK. Thank you. I appreciate it.

And the conversation is important. But I am concerned about some of the lack of details from your announcement. You're offering a general framework for us. But we can't wait very long for a proposal.

So can you explain to me how we would fix the Highway Trust Fund? Whether the fix would be paid for and how we'd pay for it? Is that part?

Secretary LAHOOD. The fix will be paid for and our staff is working with OMB to——

Senator MURRAY. Can you tell us when we'll see a proposal?

Secretary LAHOOD. Very soon.

Senator MURRAY. OK, because obviously recess is fast upon us. So I'm very concerned about that. So as soon as we——

Secretary LAHOOD. I take your point.

AVIATION SAFETY

Senator MURRAY. OK, very good. Let me ask you about the Colgan air crash.

The Department has taken a number of actions to improve aviation safety. And I know you've pulled together some meetings with representatives to talk about safety improvements. I know we've been promised that we're going to see some drafting on new rules on flight time, pilot flight time, that are based on scientific research. And the Department is talking about relying on voluntary actions from the airlines.

Do you think that voluntary actions will get us to where we need to be?

Secretary LAHOOD. Well, let me first say that we have probably the most qualified FAA Administrator in the country. Randy Babbitt is superb, experienced, a 25 year pilot, commercial pilot, businessman and former President of the Airline Pilots Union. Nobody knows these issues better than the FAA Administrator.

The meeting that we held at the FAA a few days ago had an overflow crowd. We had people that wanted to come and we just didn't have room.

These folks came up with very, very good suggestions. Randy made it very clear and I made it very clear to them that we want to work with the airlines. We want to work with the pilots unions. We want to work with everybody.

We're not going to sit around on our hands and wait for something to happen. If things don't happen quickly we're going to take action either by suggesting legislation to Congress or by rule making.

Senator MURRAY. OK.

Secretary LAHOOD. We're not going to wait until January until the NTSB makes its report. We're going to give them a little time here to think about some of the things that were suggested and recommended. I guarantee it.

We're going to take action. Safety is our No. 1 priority in all of our modes.

MEXICAN TRUCKS

Senator MURRAY. OK, very good. And just real quickly in my last few seconds, Mexican trucks?

We have been working on this subcommittee long and hard on this. Senator Bond mentioned it in his opening remarks. The punitive tariffs are impacting everybody right now.

Can you give me a quick update on where the administration's progress is on developing a plan?

Secretary LAHOOD. We are making the final tweaks to the proposal. It involves a lot of different agencies. It involves agriculture, transportation, the State Department. There are a lot of players here.

We're putting the final tweaks on it and we hope to begin to meet with you folks and your staff to explain what we've tried to do collectively to address the issues that many Senators expressed to us about their concerns about safety and the Mexican truck program.

Senator MURRAY. OK. Well we hope to be able to mark up our bill fairly soon after the July recess. So hopefully we can get it before then so we can get this resolved. Thank you.

Senator Bond.

Senator BOND. Thank you, Madam Chair and Mr. Secretary. I second the questions that the chair asked. And I won't go into them here. But you and I have had a discussion about the funding.

On Mexican trucks I would point out that this subcommittee has in the past put all kinds of safety requirements and safety standards and guidelines and inspections on the Mexican trucks. From what we have understood they have met every single one of those tests. And now it would seem to me that the negotiations would have to be with our partner to the South on what we can do since we have violated the terms of agreement of NAFTA.

And it's wonderful that all the agencies are talking to each other. But the problem is we have to resolve the dispute with Mexico. Is that—is the Government of Mexico involved in the discussions?

Secretary LAHOOD. I met with 28 Members of Congress to try and discern what it takes to get Senators and House Members to the notion that we can develop a very safe program. I heard lots of good suggestions and recommendations and lots of ways to measure safety.

We've included those in our proposal and very soon you'll be seeing that. Frankly, we have not shared that with the Mexican Government.

It's an internal document based on conversations and recommendations that we got from Members of Congress who frankly didn't like the program, but we have not shared it with the Mexican Government if that's what you're asking me.

HIGHWAY TRUST FUND

Senator BOND. Well we have for 3 years put mores to every good idea that we've got and we put on it. And to my knowledge they've done enough. Some—if people don't like the program they're going to have to explain it to the 25,000 American workers who are going to lose their jobs.

But moving onto the Highway Trust Fund, if there's a fix are you—do you agree with the current Highway Transit split, 80/20? And I would ask you, the budget has assumed a $36 billion general fund appropriation for highways. Are those funds going to be used for title 23 eligible activities only like the trust fund dollars?

Secretary LAHOOD. The fix is going to be for highways and transit. Is that what you're asking?

Senator BOND. Yes. I mean is there a separate—are you going to keep the same splits?

Secretary LAHOOD. Yes, sir.

Senator BOND. Or are you going to have different funds?

Secretary LAHOOD. No, we're going to fix both and the formulas. We're not going to change those.

Senator BOND. ARRA provides 10 percent for operating assistance on transit. Is it going to be the policy of the administration to support operating assistance in the future?

Secretary LAHOOD. The supplemental bill that is pending now in the Senate includes a provision that allows for 10 percent to be used for operating. If you all pass that and the President signs it, it will be the law.

Senator BOND. Going forward are you recommending because if you start—if we start subsidizing operating assistance we're going to have to have a whole lot larger budget allocation than we have. That's the thing I'm worried about.

Secretary LAHOOD. We're going to follow the law. In the supplemental there's a provision that allows for money to be used for operating.

When I've testified before Congress before I've said I'm open minded about this. It makes no sense to send money out to these transit districts to buy buses if there's nobody there to drive them or there's nobody there to operate the transit district.

The House has spoken on this, eventually I think you all will and if the President signs it, it will be the law. We'll follow the law.

HIGH SPEED RAIL

Senator BOND. Well, I have some other questions about the burdens. For example, on the high speed rail strategy the—we need some guidance on there. Without some guidance from the Department I'm concerned we could end up in an unfortunate situation where States in each rail corridor go down their own way creating operating inefficiencies, greater operating and maintenance costs.

And are there steps you can then take to assure that there is a process for developing common specifications. For example, for rail locomotives latest technology and what can the Department do in the short term to encourage American companies to invest in locomotive manufacturing and renew a domestic manufacturing capability?

Secretary LAHOOD. We put guidance out yesterday for all those that have high speed rail interest. We think it's very good guidance. We think it really gives people an opportunity to see what we're looking for.

We have set a deadline for September to receive applications. We'll review those and then we'll determine how the money is going to be spent.

This money is going to be spent correctly. And according to the guidance that we have given to people. We developed the guidance after traveling around the country and holding, I think, 11 or 12 regional meetings and inviting all the high speed rail enthusiasts to come to Washington and meet with the Vice President and myself.

We've had lots of meetings on this. We think we're headed in the right direction. But I want to assure you that the $8 billion will be spent correctly to really jump start our opportunities to have high speed rail.

AIR TRAFFIC CONTROLLERS

Senator BOND. We want to make sure that there's guidance there to assure that it's spent wisely.

Mr. Secretary, I know the top priority is to settle the dispute between the air traffic controllers and the FAA. I'm concerned about what the dollar cost of it because there's nothing in the budget for it. And I just got some figures that of the 74 of the top 100 controllers earn more than the Vice President of the United States and the Speaker of the House.

Now maybe they're worth more than that. But of the top 1,000 contributors, 300–411 earn more than $198,000 which is more than a Cabinet Secretary, you make, Majority and Minority Leaders of Congress. And I just wonder if you're going to be able to meet the needs if those salaries continue to go up.

Secretary LAHOOD. Well just by way of background for the subcommittee, we have engaged Jane Garvey to lead the negotiations. Two mediators have been hired.

They've closed out many issues and they're very close on several others. The final issues will be salaries and vacation and those kinds of things.

We're working with Jane and her team on what it's going to cost to really get into an agreement with the controllers. We're closer than we've ever been and this process has worked very well.

Senator BOND. Thank you, Mr. Secretary. I thank the chair. If you'll excuse me I have some votes to go take in another committee.

Senator MURRAY. Alright, Senator Collins. Thank you very much, Senator Bond.

Senator COLLINS. Thank you, Madam Chair. Mr. Secretary, I want to associate myself with the question that Senator Murray brought up about the safety of regional carriers. In my State even the largest airports in Bangor and Portland are primarily served by regional commuter airlines.

In fact, in Bangor, almost 80 percent of the passengers are being carried on commuter airlines. Even in Portland our largest airport, it's more than 71 percent. Do you anticipate the administration presenting a plan to ensure the safety of commuter airlines?

Secretary LAHOOD. Yes and very soon. Again, after our meeting Randy Babbitt will be traveling around the country and visiting with people who could not come to Washington. He's going to do that very quickly.

I had a conference call for over an hour with the family members of those that perished in the flight in Buffalo. They offered me some very good suggestions and recommendations. When Randy gets back from this little regional tour that he's going to be on and after we assess whether the airlines and the pilots are going to be able to comply with some of the things that were recommended, we will have a good report with good recommendations about whether we think there should be legislation or rule making or if some of these things are going to be done voluntarily.

We have to assure the flying public that when they get on a commuter airline, it's safe and that the pilots that are flying them are well trained and well rested. That's—it's the bottom line. We're committed to doing that.

TRUCK WEIGHTS

Senator COLLINS. Great. Thank you. I appreciate that commitment.

I mentioned in my opening statement that the biggest transportation issue in the State of Maine has to do with truck weights. And I want to give you a little more background on that issue. Right now trucks weighing up to 100,000 pounds are permitted on the interstate highways in New Hampshire, Massachusetts, and New York as well the Canadian provinces of Quebec and New Brunswick.

But when they are traveling through Maine they're only allowed on Interstate 95 from the New Hampshire border until they get to Augusta, Maine. Interstate 95 continues another 200 miles in Maine up into Aroostook County to Houlton. The result is that the heaviest trucks are forced to leave the Interstate and travel through small villages, through downtown Bangor.

In the last couple of years there have been two fatalities in Bangor involving heavy trucks that have been trying to navigate through busy downtowns or on rural roads and neighborhoods. This just doesn't make sense. The State police have implored us to fight for an increase in the weight limit because they believe that it will reduce the number of accidents.

The State legislature has passed a resolution with the support of the Governor and the entire delegation urging Congress to address this issue. This is bicameral, bipartisan. Everyone is for it.

And unfortunately we've had a great deal of difficulty in trying to correct this disparity. As you can imagine this is also a big economic issue. There's more wear and tear on secondary roads in our State because of the heavy trucks.

It's a commerce issue when trucks traveling from Canada down through Maine have to carry lower loads. It's an energy issue as well because we're putting more trucks on the road. I realize that this requires a legislative fix, but I would ask today that the Department work with Maine officials on both sides of the aisle, State and Federal, to help us develop a plan to remedy what is a serious safety and commerce issue. So I'm asking you today if you will help us address this important issue.

Secretary LAHOOD. I certainly will and we're looking at this in the Department. When I was in New Hampshire and Vermont recently to announce some road projects with Senator Sanders in Vermont and Senator Shaheen in New Hampshire, people raised this issue with me and both the Senators also raised it with me.

I know it's a very, very critical issue and we will work with the Congress on the way forward to try and find the right fix for it.

Senator COLLINS. Thank you very much, Mr. Secretary. Thank you.

Senator MURRAY. Thank you very much. Senator Specter.

MAGLEV

Senator SPECTER. Thank you, Madam Chairwoman. Mr. Secretary, thank you for taking on this important, tough job. Thank you for your trips to Pennsylvania, including Cumberland County last week.

There is considerable public interest, as you know, on using the Stimulus funding and getting into action. And that issue becomes more sharply focused as you see the public opinion polls expressing concerns about the deficit and the national debt. And I think the public concerns would be allayed to some extent, although it's a mounting problem from what I sense in my State and nationally be allayed to some extent if the funds were allocated and people could see some results from them.

Let me thank you for your prompt action in releasing the $950,000 from the Federal Highway Administration to the Federal Railway Administration. That is very, very helpful on the MAGLEV. Pursuing MAGLEV there has been appropriations of $45 million for the eastern part of the State which could be awarded to MAGLEV.

That appropriation was made sometime last spring, the spring of 2008. And there has been concern about matching funds from Pennsylvania on the 20 percent. But I would ask you to take a look at that to see if some of it could be advanced to the extent we can get those matching funds.

Because I think Governor Rendell would be anxious to move ahead. And the work on the robotic arms to construct it could begin. So if you would take a look at that.

Secretary LAHOOD. Yes, sir.

Senator SPECTER. I would appreciate it.

Secretary LAHOOD. I'll do it.

Senator SPECTER. There's a different MAGLEV low speed from the University of California which is south of Pittsburgh. And there is $1.5 billion in the stimulus package which could be allocated. And that project is looking for $200 million to move ahead.

And that would come in the category. And I know how much you have on your plate and how many items you have. But if that money could be forthcoming, people could see where it is going.

The trip you made to Cumberland County was very helpful because they see a bridge being constructed. Secretary Napolitano was at the Philadelphia airport on baggage handling for explosives. They can see $26 million. So there again, it would be very, very helpful.

One of the key rail projects in Pennsylvania is Schuylkill Valley Metro which would run from center city Philadelphia to Reading and would take an enormous amount of pressure off the Schuylkill expressway. And that's a virtual parking lot. And we have scaled that back from some $2 billion using existing lines to a much, much lesser figure. But it's still a problem of getting it lined up with a local match.

There is $24 million which would lapse on September 30. And I would ask you to take a personal look at that, not to reprogram it because that program is alive. It's been a long time in coming.

But some think it would be enormously important. And even when we're trying to take people off the highways and OPEC oil and pollution and all the rest of it because that I'm determined to see that happen and so is Senator Casey and so is the Pennsylvania delegation.

Secretary LAHOOD. I'll look into it and get back to you.

[The information follows:]

DOT is waiting for the fiscal year 2011 appropriations bill to determine the status of the funds earmarked for the Schuylkill Valley project.

HIGH SPEED RAIL

Senator SPECTER. OK. I'd appreciate that. There's another rail line, Scranton to Hoboken, which would enable some tentative plans for a Wall Street West to be constructed in Northeastern Pennsylvania to take the pressure off of Wall Street into Manhattan. And the concerns which have been expressed in having all of those very important records and matters in one concentrated spot in light of what happened to the Trade Center.

I'm not looking to make any predictions or say anything which would cause something to happen. But it's a target area. And there is now a 30 day public comment period on the environmental review.

And when that finishes it would be very helpful if there was a response from the Department of Transportation on the next step moving forward. I've given you quite a laundry list here, Mr. Secretary. But you've got some of the really critical projects as they affect transit.

Let me ask you—give you a chance to respond a little bit as to what you see with the $8 billion on high speed rail. That is an item which would be very beneficial on the Philadelphia to Pittsburgh run.

Where do you see the allocation of funds coming on that?

Secretary LAHOOD. We put the guidance out yesterday and it's up on our Web site so everybody can see it. We know that all the real enthusiasts have already read it. Some are putting together their applications right now for funding.

I believe that by September we will receive applications. Some will come from a State, and some will come from regions, multistate regions. I know that Governor Rendell is very interested in this program. He's attended every meeting that we've ever had on high speed rail whether it's here in Washington or in Pennsylvania.

I think he and his team will be very aggressive in putting together a proposal that will comply with the guidance that we put out yesterday. This idea that $8 billion may not be enough I think is nonsense. It's 8 billion times more than we've ever had at the Department.

It also is the first time in the history of the country that anyone has paid attention to high speed rail to this extent. I guarantee you this when President Eisenhower signed the interstate highway bill all the lines weren't on the map and all the money was not in the bank.

We're starting and this is a very good start. With your help over the next 5 years and with another $5 billion, we're going to help people in America realize their dreams. We will also answer the question for people who travel abroad to Spain, Europe or Asia and come back having ridden on 250 mile an hour train. Why don't we have it in America? Because it's never been a priority.

It's a priority for the President. It's a priority for the Congress who put $8 billion in the bill and we're going to make it happen.

Senator SPECTER. Good. Senator Kerry and I had put in the bill some time ago for $15 billion. And there's a lot of interest in the Congress. And we will back you up.

My final comment is another thank you on my list here. We got $8.5 million for a transit station for Southeastern Pennsylvania Transit Authority in Croydon, Pennsylvania. And we had a ground breaking on that facility.

And that again was very helpful because it shows the people that the monies allocated to the stimulus package are being spent for a useful purpose. And the more of that the better to give some public confidence when they're looking at a deficit or looking at a debt that there's a real purpose behind it. And they're getting something for their money, so again, my thanks on that item.

Secretary LAHOOD. Thank you, sir.

Senator MURRAY. Thank you very much, Senator Specter.

Senator SPECTER. Thank you.

ERAM PROGRAM

Senator MURRAY. Mr. Secretary, I wanted to ask you about the ERAM program. It's an essential part of FAA's air traffic control system. It's the program that replaces outdated software that is used to manage our air traffic at high altitudes.

And until recently that program has been operated on budget and ahead of schedule. But this year the aggress for that schedule that the FAA set for the program slipped a bit. Now the FAA is saying this program is still going really well. And it can be used to control traffic this year.

But I want you to know I hear a very different story from the air traffic controllers who are in those facilities and testing that software. They tell me that ERAM is not operational and the schedule is unrealistic. Can you explain to me the different levels? Are you hearing that from air traffic controllers?

Secretary LAHOOD. Every time that I travel around the country I do visit air traffic control towers. I get an earful from the folks that work there. I've not heard about this.

Randy Babbitt's No. 1 priority is safety and that's the reason we had the safety summit. Prior to the Buffalo crash we would always say our No. 1 priority is NextGen, getting these TRACONs to a level where we have very capable people working as controllers in these TRACONs. We want to give them the best equipment possible.

I will look into that issue. As I said I've been all over the country and I've not heard about it.

I'll start asking the question when I go visit.

Senator MURRAY. OK. I'd appreciate that. And if we could follow up with you on that——

Secretary LAHOOD. Right.

Senator MURRAY. With some of the concerns we're hearing.

Secretary LAHOOD. Sure.

ADSB TECHNOLOGY

Senator MURRAY. That'd be great.

The FAA has also been highlighting ADSB as a centerpiece of its modernization efforts. That's the program that will allow the agency to replace its radars with the satellite based technology. Now the FAA has mandated that the airlines equip their airplanes with ADSB technology by 2020.

I don't believe that mandate will be a success unless the airlines themselves see the benefit of investing in ADSB. And that means the FAA has to be able to change its regular operations to make use of that technology. Can you talk to me a little bit about what the Department is doing to make the case for equipping planes with the ADSB?

Secretary LAHOOD. I've personally had discussions with the airline industry and I know that, again, this is a priority for Randy. He understands this probably as well as anybody because of his pilot experience.

We've had some discussions with our friends at the White House about this in terms of what it's going to cost to implement a program like this. We realize that it's a very costly program.

I just read recently where United just ordered a whole bunch of airplanes from Boeing. They're going to obviously be equipped with the kind of equipment that is going to be necessary to connect with what we're going to be putting in as our new NextGen equipment. We're going to work with the airlines on this.

They want us to be helpful because this is a very costly thing for them and they're not exactly making a lot of money right now, as you know.

Senator MURRAY. Right. It's a very tough time.

Secretary LAHOOD. Right.

LIVABLE COMMUNITIES INITIATIVE

Senator MURRAY. OK. I wanted to ask you, separate from the Highway Trust Fund that we talked about earlier. I want to ask about the Livable Communities Initiative.

And I really do want to acknowledge your work in reaching out to Secretary Donovan from HUD and Administrator Jackson from EPA. I know that earlier this week all three of you unveiled a set of six principles for the administration's livability initiative. And as part of that you said that it needs to be easier for local and regional governments to coordinate housing and transportation planning.

The authorizing committees I know are working on drafting bills for the next surface transportation authorization. If we want this new legislation to be informed by the Livability Initiative we've got to move very fast beyond the general principles and see some of the specific changes. And I wanted to ask you when you thought we could hear from you about some of the barriers in Federal law to integrated housing and transportation planning.

Secretary LAHOOD. I think very soon. Our staffs have been meeting and I think we're putting together proposals right now.

Within the next 30 days or so we can have what we're really putting on paper in terms of our opportunities to work with HUD and to work with EPA and to figure out what barriers exist and what changes need to be made in any kind of legislation.

Senator MURRAY. OK. I'm very much looking forward to seeing what you have——

Secretary LAHOOD. Great.

Senator MURRAY. In terms of specific proposals on that.

Secretary LAHOOD. I appreciate your support on this too.

WATER TRANSPORTATION

Senator MURRAY. OK. And I want to ask you about water transportation. Our ports and waterways provide a great opportunity for both freight and passengers to get traffic off our roads. This is something we know well out in the Pacific Northwest with the Columbia River System and Puget Sound.

So I'm really pleased that the administration is showing an increased interest in the maritime sector. One indication of this is the President's proposal for a new joint initiative with the Department of Homeland Security to increase security capacity and efficiency of our Nation's ports. It's a proposal that will develop the Nation's inner mode of freight infrastructure by linking our coastal and inland ports to highways and rail networks.

Can you talk to me a little bit about that this morning? And tell me what you see and envision?

Secretary LAHOOD. We need to make sure that the ports are secure. Congress has given us some directives on this.

In order to comply with what we believe are opportunities to secure ports and to make sure that things that move in and out of ports are what they should be and that they don't cause a threat to people that live in those areas, we are combining our efforts with Homeland Security. We've put money in the President's proposed budget to deal with that.

This administration and the Department are taking a great deal of interest in ports. The $1.5 billion in discretionary money, if you look at the guidance that we put out, will create some opportunities to enhance ports around the country to do exactly what you were saying initially in your statement here. We also are going to highlight the idea of the Marine Highway which can relieve congestion certainly all along the area where you live and the State you represent, all along that coastline where there are ports all along there.

It's not only making sure that they're secure, that they're safe, that what comes in and out of there is checked properly, but also to highlight the importance of their expansion and using the Marine Highway as another alternative to relieve congestion on land.

Senator MURRAY. Well as part of that we're very acutely aware in my State and several other States about the ability of our ferry system to get people off of roads. And I wanted to know if you thought that the next authorization, if you'll support me in helping make our ferry system better supported within the authorization.

Secretary LAHOOD. Absolutely. The money that was in the economic recovery for that program is well over subscribed. There's a lot of interest in this. There's no question about it.

Senator MURRAY. That is not surprising to me. And I think that helps make our case.

Secretary LAHOOD. Right.

Senator MURRAY. That there's a capacity out there that if we invest——

Secretary LAHOOD. Exactly.

Senator MURRAY [continuing]. That will really help us out.

Mr. Secretary, you've been very kind to answer a number of questions this morning. We have a number of other Senators who were not able to be here today who want to submit questions to you including Senator Byrd who is unable to be here. But he asked that we submit questions on his behalf.

Secretary LAHOOD. Certainly.

Senator MURRAY. So I will do that for you.

ADDITIONAL COMMITTEE QUESTIONS

And the record for this hearing will be open for another week so that Senators can submit questions for the record. And again, Mr. Secretary, thank you so much for being here today.

Secretary LAHOOD. Thank you. Thanks for all your support for all of our issues too. We really appreciate it.

Senator MURRAY. And we're looking forward to seeing you out in my State to see some of this on the ground or water.

Secretary LAHOOD. Yes. We'll be there. Thanks for your leadership.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. Mr. Secretary, on February 26, 2009, you and I met in my office to establish what I had hoped to be a positive working relationship. During our meeting, I strongly emphasized the importance of providing funding to complete the Appalachian Development Highway System (ADHS), noting that finishing Corridor H was of great interest to me and my constituents. You indicated enthusiastically that you would work with me and West Virginia transportation officials in this regard.

Knowing full well that West Virginia Governor Joe Manchin also recognizes the importance of completing Corridor H, I was not surprised when he advised you in a March 2, 2009 letter of his intentions to make $21 million available from the American Recovery and Reinvestment Act (ARRA) for several Corridor H contracts. Soon after his letter was sent to you, two news stations aired one-sided stories about Corridor H, ridiculing the State's efforts to complete this project. Much to my dismay, and that of the thousands of West Virginians who have been patiently waiting for the promise of this highway for nearly half a century, State officials suddenly, and with little explanation, redirected the $21 million toward other projects, letting an opportunity to make significant strides on this project go by the way side.

Mr. Secretary, I have a copy of the March 18, 2009 letter that State officials sent to your office indicating that the State made a decision to divert funds from Corridor H on its own accord. However, rumors abound in my State that someone from the administration contacted WVDOT officials to strongly recommend that stimulus funds for Corridor H be directed elsewhere in light of the recent news stories.

Mr. Secretary, I would like to know, for the record, did you, a member of your staff, or any other official of this administration contact officials of the West Virginia Department of Transportation to suggest that the $21 million in ARRA funds originally intended by the State for Corridor H be redirected toward other projects as a means to downplay the impact of the recent news stories about Corridor H?

Answer. The West Virginia Division of the Federal Highway Administration (FHWA) has worked very closely with the West Virginia Department of Transportation (WVDOT) during the planning, programming, design and construction of projects funded by the American Recovery and Reinvestment Act (ARRA). Initially, the WVDOT included the subject $21 million Corridor H project as a candidate for ARRA funding. During the programming and evaluation of candidate projects, it became clear to WVDOT that other "shovel ready" projects were better candidates for ARRA funding. The specific issue of concern was that the contract, which involved the construction of two bridges on new location, would not immediately provide transportation benefits since subsequent construction providing highway linkage to the bridges had not been funded at that time. The delivery of immediate transportation benefits was an important criterion that WVDOT applied in its selection of ARRA projects. All other large corridor expansion projects receiving ARRA funds in West Virginia met the goal of providing "usable highway sections" immediately upon their completion.

This decision in no way reflected a shortcoming on the part of the project; rather, it reflects the challenges of constructing major facilities such as Corridor H in West Virginia's difficult topography. It is not uncommon for a phase of a complex project to be available to the traveling public only after subsequent funding allows for the completion of a "useable section" of roadway. In this case, the WVDOT identified alternative funding that could easily be used to ensure that the project was constructed within almost the same timeframe.

Question. Mr. Secretary, I am also concerned that the administration, in its fiscal year 2010 budget request, offered up for cost-saving purposes the $9.5 million I added to the fiscal year 2009 Omnibus Appropriations bill to advance construction of Corridor H. This action has sparked widespread panic throughout West Virginia, with newspapers reporting that the administration has cancelled the project outright. I will quote from the most recent editorial from the Charleston Gazette, "Now the Obama administration wants to cancel the rest of Corridor H. The White House's 2010 budget supplement marked it for elimination even though President Obama otherwise champions stimulus spending for construction jobs to help overcome the recession. Why does the White House want to erase these jobs and deny West Virginians better transportation?"

Frankly, Mr. Secretary, I ask myself the same question. Corridor H has been designated as a nationally significant highway, is clearly authorized, construction is progressing based on available funds, and is poised to serve as national security evacuation route in the event of a catastrophic event in the Washington, DC region. The mountains of West Virginia, while beautiful and majestic, make it extremely costly and difficult to build modern highways in the State. Formula monies just don't get it done when it comes to people's safety and livelihood. I make no apologies in my efforts to advance a project that was promised over 40 years ago and that will result in improved freight flow for this region of the country, and improved safety and enhanced economic development opportunities in West Virginia.

Mr. Secretary, this country made a promise to the people of Appalachia in 1965 to open up regions of isolation with a modern highway system. The recent actions of this administration are clearly contrary to that commitment. What may I tell my constituents is the official position of this administration with regard to completing Corridor H?

Answer. I can assure you that this administration is fully committed to completing Corridor H and to fulfilling the promise made to the citizens of Appalachia back in 1965.

As evidence of that commitment, I would like to report on the efforts of our Division Office in West Virginia that works locally with the WVDOT to advance the construction of the Appalachian Development Highway System (ADHS).

The Division has worked diligently with the WVDOT to ensure that ADHS dollars are programmed and obligated promptly as they become available.

The Division was directly and intimately involved in the negotiation of the settlement agreement executed in 2000 that allowed construction work to resume on Corridor H after all work was halted by the lawsuit filed by Corridor H Alternatives. Our Division Office has and will continue to diligently monitor, manage, and implement the ongoing requirements of this agreement, which serves to help safeguard the continued progress of the project from additional legal challenges.

When Governor Joe Manchin III began his term, he promised to focus the efforts of the WVDOT on a limited number of major corridors, including Corridor H, Corridor D, the Mon-Fayette Expressway, WV Route 9 and U.S. 35. This focus by the WVDOT has, in turn, enabled our office to also focus the efforts of FHWA staff in helping to complete these corridors. The Division created a new position dedicated exclusively to the completion of these major corridors.

The WV Division of FHWA along with the Appalachian Regional Commission (ARC) and the WVDOT provided technical assistance and support at the recent Corridor H Celebration Event in Moorefield on September 17, 2009. This event served to update the public regarding the progress and future plans for completing the Corridor.

Importantly, our WV Division has worked closely with WVDOT and the ARC to identify potential innovative financing techniques that can accelerate the delivery of remaining Corridor H construction. "Advance Construction" authorizations are now used where appropriate to give contracts a "running start" using State funds which are then converted to Federal funds.

CONCLUSION OF HEARINGS

Senator MURRAY. Thank you. The subcommittee will stand in recess, subject to the call of the Chair.

[Whereupon, at 10:43 a.m., Thursday, June 18, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED SUBSEQUENT TO THE HEARINGS

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on Transportation and Housing and Ubran Development, and Related Agencies for inclusion in the record.

The subcommittee requested that agencies and public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule separate hearings for these witnesses.]

PREPARED STATEMENT OF THE AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

INTRODUCTION

Madame Chairman and members of the subcommittee, on behalf of the American Public Transportation Association (APTA), we thank you for this opportunity to submit written testimony on the fiscal year 2010 Transportation and Housing and Urban Development Appropriations bill as it relates to Federal investment in public transportation and high-speed and intercity passenger rail.

ABOUT APTA

APTA is a nonprofit international association of nearly 1,500 public and private member organizations, including transit systems and high-speed, intercity and commuter rail operators; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and State departments of transportation. APTA members serve the public interest by providing safe, efficient, and economical transit services and products. More than 90 percent of the people using public transportation in the United States and Canada are served by APTA member systems.

FISCAL YEAR 2010 FUNDING FOR PUBLIC TRANSPORTATION AND INTERCITY RAIL PROGRAMS

I appreciate the opportunity to comment on fiscal year 2010 funding for the Federal transit program and intercity and high-speed passenger rail. As your subcommittee works to approve the fiscal year 2010 Transportation and Housing and Urban Development Appropriations bill, we urge you to provide no less than $12.4 billion for Federal public transportation programs. This level is consistent with APTA's recommendations for fiscal year 2010 under the next surface transportation authorization bill.

We also ask that you provide full funding for all rail programs authorized under the Passenger Rail Investment and Improvement Act (PRIIA) of 2008, including $300 million for Grants to States for Intercity Rail, $300 million for the High Speed Rail Corridors program and $50 million for Intercity Rail Congestion Grants. In addition, APTA urges the subcommittee to fund the Rail Safety Technology Grants program at a level significantly higher than the $50 million authorized in PRIIA, to assist with the implementation of positive train control systems. Finally, we encourage Congress to provide an additional $1 billion in fiscal year 2010 for high-speed rail, consistent with the President's budget request.

We appreciate the support transit has received in Congress and throughout the country in the past year. Investment in public transportation and high-speed and intercity rail has been widely regarded as an effective way to create jobs and spur economic growth. Funds provided through the American Recovery and Reinvestment Act (ARRA) of 2009 have already allowed public transportation systems and equipment manufacturers to begin putting thousands of people to work and to also begin to address the enormous backlog of capital investment needed to maintain and expand transit systems nationwide. More Americans are using public transportation and still more will use public transportation if we continue to invest in maintaining, improving and expanding existing systems. In 2008, Americans took 10.7 billion trips on public transportation—the highest level in 52 years—despite falling fuel prices in the second half of the year and rising unemployment, both of which generally result in ridership declines.

We have decidedly mixed reactions to the administration's budget submission for fiscal year 2010. APTA was pleased the administration recommended $1 billion for high-speed and intercity passenger rail, but disappointed with the recommendations to provide only a small increase for the Federal transit program and to reduce funding for transit security. We understand the administration's proposal for transit programs leaves room to increase transit funding under a multi-year authorization bill, but we believe increased Federal investment in public transportation is critical to continued growth of transit ridership, therefore, we urge the subcommittee to increase the fiscal year 2010 appropriation for the Federal transit program to $12.4 billion, as requested in our testimony. Finally, while we recognize this subcommittee does not have jurisdiction over transit security funding in the Department of Homeland Security program, we urge Congress to reject the administration's proposal to fund the Rail and Public Transportation Security Program at $250 million. This amount is less than the fiscal year 2009 level of $400 million, and far less than the $900 million authorized in fiscal year 2010 under the 911 Commission Recommendations Act.

FUNDING FOR FEDERAL TRANSIT ADMINISTRATION PROGRAMS

APTA urges Congress to provide $12.4 billion in fiscal year 2010 to fund public transportation programs under the Federal Transit Administration (FTA). As you know, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA–LU) expires at the end of the current fiscal year. For the next authorization bill, APTA has developed a set of recommendations for Congress that calls for a significant increase in Federal investment, along with some modification of existing programs and the creation of several new programs.

APTA's recommendations were developed over the course of more than a year, and represent a consensus among large transit agencies, small transit agencies and the public transportation business community. In addition to seeking an increase in funds, we recommend several key changes to the basic program structure. These changes will help streamline the Federal transit program, reduce administrative burdens on transit agencies and help speed project delivery. In addition, program modifications reflect an agreed-upon equitable distribution of funds within the transit program to communities across the country. Specifically, APTA recommends the following program modifications:

—*Bus and Bus Facilities Program*.—APTA recommends modifying the current program to create two separate categories of funding. Fifty percent of funds should continue to be distributed as discretionary grants, while the remaining 50 percent should be distributed via a formula that is based on bus formula factors under the urbanized and rural area formula programs. This will allow all transit agencies to address their rolling stock needs, while maintaining the ability to seek additional funds through a discretionary grant program. Funds under the formula or discretionary categories could be used for eligible activities under current law.

—*Fixed Guideway Modernization Program*.—APTA proposes replacing the current seven-tier program with a simplified two-tier program. The first tier would be reserved for current recipients, using formulas under the existing seven-tier program to create a base amount. This formula would be used to distribute 50 percent of the overall program growth each year. The second tier would distribute the remaining 50 percent of annual program growth among existing and new qualified recipients via a formula that is based on the rail tier of the urbanized area formula program. This modification would hold existing recipients harmless, while allowing for the addition of new fixed guideway systems into the program that meet the 7 year minimum age requirement.

—*New Starts and Small Starts Program*.—APTA recommends a number of changes to the New Starts and Small Starts program to streamline the process and speed project delivery. These include the creation of a streamlined rating system for all Small Starts projects, re-establishment of an exempt category of New Starts/Small starts projects that require small amounts of funding, streamlining the review and approval process, reinforcement of the full range of factors for consideration for the New Starts rating process, and the re-establishment of the Program of Interrelated Projects provision of Intermodal Surface Transportation Efficiency Act (ISTEA).

—*Workforce Development*.—APTA recommends an increased focus on workforce development to address significant needs to attract and train the next generation workforce for public transportation. This includes the expansion of on-going programs, such as the Transportation Learning Center and the National Training Institute, the creation of a network of regional transit training centers, and the eligible use of urban and rural area formula grants for training activities.

—*Urbanized and Rural Area Formula Programs*.—APTA urges the continuation of the Large Urbanized Area, Small Urbanized Area, and Rural Area formula programs in their current form, including the continuation and expansion of the Small Transit Intensive Cities program. In addition, APTA recommends that public transportation systems in urbanized areas of more than 200,000 population which operate less than 100 buses in peak operation should be eligible to use formula funds for operating purposes. In addition, APTA recommends the elimination of the High Density and Growing States formula, and distribution of these funds under the existing urbanized area and rural area formula programs.

In addition to these program modifications, APTA recommends creating the following programs:

—*Coordinated Mobility Initiative*.—APTA recommends the creation of a single program to replace the current Job Access and Reverse Commute (JARC), New Freedom Initiatives (NFI), and Elderly and Disabled Programs. This new program would combine funds available for the three existing programs and distribute them to States and urbanized areas via a formula, taking into consideration all factors contained in the abovementioned programs—population of elderly people, population of disabled people, and Temporary Assistance for Needy Families (TANF) eligible population. Requirements for the locally developed coordinated human services transportation plan would be maintained and designated recipients eligible under the existing JARC, NFI and Elderly and Disabled Programs would still have the ability to distribute funds to carry out previously eligible projects. Current eligibilities and requirements for the respective programs should be retained under the combined program.

—*Clean Fuels Aging Bus Replacement Program*.—APTA recommends the creation of a new program to provide funds to assist transit systems with replacing aged rolling stock with new clean-fueled vehicles. Funds would be distributed to designated recipients via a formula based on the relative share of the total cost to replace vehicles that exceed 125 percent of the FTA standard for replacement.

To fund FTA programs, APTA urges no less than $123 billion provided over a 6 year period, with the $12.4 billion for fiscal year 2010 representing the first year's installment of public transportation investment. Ultimately, growing FTA programs to levels recommended by APTA by fiscal year 2015 will help meet at least 50 percent of the estimated $60 billion in current annual capital needs and support the projected doubling of ridership over the next 20 years. To achieve sufficient balances in the trust fund and to accommodate increased investment, APTA recommends an increase in the motor fuels user tax to at least a level that restores the purchasing power to 1993 levels (the year of the last increase) and indexing the tax to future inflation. Failure to invest in transit now will result in an inability for transit systems to meet demand in the future.

In recent years, Congress has consistently increased investment in public transportation. We urge you to not only continue this pattern, but to increase Federal transit investment by 20 percent annually, in order to create a more efficient and more effective public transportation network. We believe that Congress must act to address the capital investment needs of transit systems while also creating jobs, reducing emissions, and improving the quality of life for all Americans.

PASSENGER RAIL INVESTMENT AND IMPROVEMENT ACT OF 2008

We also urge Congress to fully fund intercity and high-speed passenger rail programs authorized under the Passenger Rail Investment and Improvement Act (PRIIA) for fiscal year 2010. This legislation, combined with funds provided in the American Recovery and Reinvestment Act (ARRA), provides a real opportunity to advance and improve passenger rail service in the United States. Specifically, we urge the subcommittee to provide the authorized amounts for the following programs:

—$300 million for the State Capital Grant Program for Intercity Passenger Rail (sec. 301) to provide grants to States to pay for capital costs of equipment and facilities necessary to provide new or improved passenger rail service;

—$300 million for grant to States or Amtrak for the High Speed Rail Corridors Program (sec. 501) to finance the planning, design, and construction of 11 high-speed rail corridors;
—$50 million for Congestion Grants (sec. 302) to invest in passenger rail in highly congested areas;
—$2 million for the Operation Lifesaver Program (sec. 206) for grants to carry out a public information campaign to promote safety at rail-grade crossings;
—$3 million for Federal Grants to States for Highway-Rail Grade Crossing Safety (sec. 207); and
—$5 million for Railroad Safety Infrastructure Improvement Grants (sec. 418) for safety improvements to rail infrastructure and the establishment of quiet zones.

Finally, APTA requests that your subcommittee fund the Railroad Safety Technology Grants Program (sec. 105) at a level significantly higher than the $50 million authorized amount. PRIIA requires commuter rail operators implement positive train control (PTC) systems by December 31, 2015. Our Nation's commuter rail systems are committed to comply with this requirement and implement these critical safety upgrades, however, the technology for efficient and interoperable PTC systems is still under development, and the cost for implementing PTC is substantial. Adequate funding will help ensure that these important safety improvements are implemented within the required timeframe.

HIGH-SPEED RAIL INVESTMENT

We thank Congress for investing in high-speed rail development under ARRA. The $8 billion appropriated is a great start and we urge Congress to continue this effort by investing another $1 billion in fiscal year 2010. In addition to the amounts authorized in ARRA and PRIIA, the administration has proposed adding $5 billion over the next 5 years for a high-speed rail program. This increased investment is critical to initiate a long-term Federal commitment to providing a sustainable alternative to flying or driving. An effective high-speed passenger rail service throughout our Nation would increase the overall benefits of public transportation and its contribution to national goals of reducing dependence on foreign oil and alleviating congested roadways and airways.

CONCLUSION

I thank the subcommittee for allowing me to share APTA's views on fiscal year 2010 public transportation and high-speed and intercity rail appropriations issues. We look forward to working with the subcommittee to make the necessary investments to grow the public transportation program. We urge the subcommittee to invest in making commuter, intercity and high-speed rail safer and more available by fully appropriating the funds authorized in PRIIA. Finally, we support the efforts of Congress thus far to invest in a sustainable high-speed rail system and encourage your subcommittee to continue building upon the foundation established in ARRA. It is an exciting time for public transportation and a critical time for our Nation to continue to invest in transit infrastructure that promotes economic growth, energy independence, and a better way of life for all Americans.

PREPARED STATEMENT OF THE AMERICAN PSYCHOLOGICAL ASSOCIATION

The American Psychological Association (APA), a scientific and professional organization of more than 150,000 psychologists and affiliates, is pleased to submit testimony for the record. Because our behavioral scientists conduct research funded by, or that informs programs at, the Department of Transportation (DOT) and the Department of Housing and Urban Development (HUD), APA will address the proposed fiscal year 2010 budgets for both of these agencies.

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

The Federal Aviation Administration (FAA) supports and applies psychological research to the benefit of every sector of the National Aviation System (NAS). Coordination of that research occurs through the Air Traffic Organization's Planning Research and Development Office and through the Associate Administrator for Aviation Safety. APA is writing to request full support for FAA's research and development budget and to highlight human factors research programs and issues that are critical to on-going or planned enhancements to the NAS. Much of the research is subsumed under the heading of Aerospace Human Factors and is conducted at, or supported by, the Civil Aerospace Medical Institute (CAMI) across seven broad categories: Advanced Air Traffic Control Systems, which evaluates the effect of new technologies on air traffic controller (ATC) performance and workload, as well as studying communication between controllers and aircrews; Flight Crew Performance Assessment, which evaluates the effect of advanced flight deck technology on general aviation aircrew performance; Behavioral Stressors, which examines environmental and individual stressors on aircrew and ATC performance; Individual and Team Performance Assessment, which examines the cognitive strategies and processes used in skill acquisition for effective training programs; Organizational Effectiveness, which evaluates the relationship between psychological variables and the work environment, as well as the effect of organizational innovations; Personnel Selection, which evaluates the relationship between human abilities and job performance and develops test instruments to optimize selection; and Simulation and Re-Creation, which provides controlled environments to evaluate the performance of aircrews and ATC personnel. APA fully supports the fiscal year 2010 budget request for Aerospace Human Factors.

In addition, a tremendous amount of human systems integration research is needed for the safe and efficient implementation of the Next Generation Air Transportation System (NextGen). APA fully supports the observations, findings and recommendations of the Subcommittee on Human Factors of the FAA's Research, Engineering and Development Advisory Committee (REDAC) as outlined in REDAC's report to the FAA Administrator on October 17, 2008. The subcommittee observed that while human factors personnel have demonstrated high levels of collaboration and cooperation across the Aviation Safety and Air Traffic Organizations within FAA, continuing that level of cooperation will be critical to successful NextGen implementation. The subcommittee produced four findings and associated recommendations. First, recent planning for NextGen has focused primarily on equipment acquisition, insufficiently addresses human-related issues and requirements, and needs to place greater emphasis on human systems integration. Second, human factors resources (both personnel and funding) in the Aviation Safety and Air Traffic Organizations are insufficient to carry out the range of activities required to adequately support NextGen development and implementation. Third, Post Implementation Review of new NextGen technologies may reveal significant human factors findings, but without a clear path to feed those findings forward to benefit other NextGen programs. Fourth, the NextGen management structure should be revised to ensure that cross-cutting human factors (system integration) issues are recognized and addressed.

External auditors and end-users have also raised concern about the need for added attention to human factors research within NextGen. In a hearing on March 25, 2009 before the Senate Committee on Commerce, Science and Transportation, Dr. Gerald Dillingham, representing the Government Accountability Office, addressed ongoing research needs. Among those scientific priorities for NextGen he highlighted the need for human factors research and voiced concern about the diminished role NASA was playing in that effort.

"Human factors research explores what is known about people and their abilities, characteristics, and limitations in the design of the equipment they use, the environments in which they function, and the jobs they perform. Compared with the current ATC system, NextGen will rely to a greater extent on automation, and the roles and responsibilities of pilots and air traffic controllers will change. For example, both pilots and controllers will depend more on automated communications and less on voice communications. Such changes in roles and responsibilities raise significant human factors issues for the safety and efficiency of the national airspace system. Until fiscal year 2005, NASA was a primary source of Federal aviation-related human factors research, but NASA then began reducing its human factors research staff, reassigning some staff to other programs and reducing the contractor and academic technical support for human factors research. According to NASA, human factors research continues to be a critical component of its aeronautics research program, although its work is now focused at the foundational (earlier-stage) level. FAA plans to invest $180.4 million in human factors research from fiscal year 2009 through fiscal year 2013. It remains to be seen whether or to what extent FAA's research and development, which is typically more applied than NASA's, will offset NASA's reductions in human factors."

During a hearing held May 13, 2009 before the Senate Committee on Commerce, Science and Transportation, Subcommittee on Aviation Operations, Safety and Security, Patrick Forrey, President of the National Air Traffic Controllers Association (NATCA), one of the principle end-users of a modernized air transport system, likewise highlighted human factors issues.

"Several of NextGen's proposals raise serious concerns regarding human factors, including the increased complexity and safety risk inherent in a best equipped, best-served policy. These issues must be addressed during the development stages in order to avoid delays, cost overruns, and safety failures."

These concerns would appear to dovetail well with resource allocations itemized in the FAA's fiscal year 2010 budget submission which called for substantial increases in NextGen Human Factors Research across two domains: Controller Efficiency and Air/Ground Integration. APA fully supports the $11.7 million and $7.7 million requested for these programs respectively, as described in the 2008 National Aviation Research Plan (NARP). However, APA is concerned that these large increases not come at the expense of other critical human factors programs, including Flightdeck/Maintenance/System Integration Human Factors and Air Traffic Control/Technical Operations Human Factors, which are both slated for only marginal increases as described in the NARP.

Federal Motor Carrier Safety Administration

APA is concerned that the Federal Motor Carrier Safety Administration (FMCSA) adopted an hours of operation rule for commercial drivers in November 2008, 9 days after the last election that essentially left unchanged the rule that had been adopted in 2004. The 2004 rule was successfully challenged twice in Federal court on the basis that FMCSA did not properly account for the health consequences of permitting commercial drivers to drive 11 hours at a stretch rather than the formerly allowed 10 hours of driving. While the American Trucking Association supported the rule, many members of Congress, unions and advocacy groups have called the extended hours dangerous. While the Department may choose not to reopen a discussion of this rule, APA urges the subcommittee to provide an increase of $2.5 million for additional safety research, particularly to help develop model health and wellness programs for commercial drivers, which have been identified by the National Academy of Sciences as the most promising way to assist in the reduction of commercial driver accidents and fatalities.

National Highway Traffic Safety Administration

APA applauds the leadership of this subcommittee for requesting that the National Highway Traffic Safety Administration (NHTSA) prepare a report to consolidate current knowledge on driver distraction for use by policy makers. The request was included in the reports that accompanied the fiscal year 2006 Appropriations Act, Public Law 109–115, and was meant to assist Federal, State and local governments in the formulation of effective policies, regulations and laws. NHTSA followed through, and the report, entitled "Driver Distraction: A Review of the Current State-of- Knowledge," was submitted to the subcommittee in April 2008, and was made public at that time. APA members reviewed the report and commended the Department for the preparation of a very comprehensive and highly professional review of the state of knowledge. This is an important baseline and helps policy makers better understand the likely effectiveness of proposed interventions. The report also helps identify gaps in current knowledge. Following the release of the report, NTSHA began to develop an Action Plan to identify the important next steps in both research and public policy outreach to address the problems caused by distracted drivers. We recommend that the subcommittee request a briefing from the Department on the content of the status of this Action Plan and support its implementation through the fiscal year 2010 budget.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Homelessness Prevention Fund

At a time of critical challenges in the U.S. economy, homelessness is reaching epidemic proportions. Among the most impacted are families with children, single adults, and youth who for various reasons no longer have places to live. While homelessness has historically been associated with long-standing poverty, increased layoffs, mortgage foreclosures, evictions and the inability to obtain credit is resulting in the loss of housing among working and middle class individuals, as well as those living in poverty.

The stressful events leading to homelessness and the emotional hardship that accompanies being displaced from homes, neighborhoods, schools, and social supports has serious long-term mental health implications for adults and children alike. While homelessness has been associated with chronic and severe mental disorders, more commonly, a convergence of risks, vulnerabilities and events results in people not having the ability to afford or maintain housing. Many homeless adults experience the long-lasting, deleterious psychological effects of childhood trauma, physical and sexual abuse, and violence. Homeless adults have difficulty gaining access to medical and psychological treatment, and often use emergency centers at hospitals or temporary shelters to meet their needs.

APA urges Congress to continue to support the Homelessness Prevention Fund at the Department of Housing and Urban Development which re-houses homeless persons and families who enter shelters, and expands efforts to prevent homelessness among those facing a sudden economic crisis.

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

SUBJECT INDEX

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of the Secretary

DEPARTMENT OF TRANSPORTATION

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