DEPARTMENTS OF TRANSPORTATION, AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR 2013

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE DEPARTMENTS OF TRANSPORTATION, AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS

TOM LATHAM, Iowa, *Chairman*

FRANK R. WOLF, Virginia
JOHN R. CARTER, Texas
STEVEN C. LATOURETTE, Ohio
MARIO DIAZ-BALART, Florida
CHARLES W. DENT, Pennsylvania
STEVE WOMACK, Arkansas

JOHN W. OLVER, Massachusetts
ED PASTOR, Arizona
MARCY KAPTUR, Ohio
DAVID E. PRICE, North Carolina

NOTE: Under Committee Rules, Mr. Rogers, as Chairman of the Full Committee, and Mr. Dicks, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

DENA BARON, MIKE FRIEDBERG, SARA PETERS,
DOUG DISRUD, and BRIAN BARNARD,
Subcommittee Staff

PART 4

	Page
Department of Transportation FY 2013 Budget	**1**
Department of Housing and Urban Development	**45**
Department of Transportation—Major Modes FY 2013 Budget Request	**207**
HUD and DOT Management Issues	**273**
Outside Witness Testimony	**409**

U.S. GOVERNMENT PRINTING OFFICE

74–711 WASHINGTON : 2012

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMMITTEE ON APPROPRIATIONS

HAROLD ROGERS, Kentucky, *Chairman*

C. W. BILL YOUNG, Florida [1]
JERRY LEWIS, California [1]
FRANK R. WOLF, Virginia
JACK KINGSTON, Georgia
RODNEY P. FRELINGHUYSEN, New Jersey
TOM LATHAM, Iowa
ROBERT B. ADERHOLT, Alabama
JO ANN EMERSON, Missouri
KAY GRANGER, Texas
MICHAEL K. SIMPSON, Idaho
JOHN ABNEY CULBERSON, Texas
ANDER CRENSHAW, Florida
DENNY REHBERG, Montana
JOHN R. CARTER, Texas
RODNEY ALEXANDER, Louisiana
KEN CALVERT, California
JO BONNER, Alabama
STEVEN C. LATOURETTE, Ohio
TOM COLE, Oklahoma
JEFF FLAKE, Arizona
MARIO DIAZ-BALART, Florida
CHARLES W. DENT, Pennsylvania
STEVE AUSTRIA, Ohio
CYNTHIA M. LUMMIS, Wyoming
TOM GRAVES, Georgia
KEVIN YODER, Kansas
STEVE WOMACK, Arkansas
ALAN NUNNELEE, Mississippi

NORMAN D. DICKS, Washington
MARCY KAPTUR, Ohio
PETER J. VISCLOSKY, Indiana
NITA M. LOWEY, New York
JOSE E. SERRANO, New York
ROSA L. DELAURO, Connecticut
JAMES P. MORAN, Virginia
JOHN W. OLVER, Massachusetts
ED PASTOR, Arizona
DAVID E. PRICE, North Carolina
MAURICE D. HINCHEY, New York
LUCILLE ROYBAL-ALLARD, California
SAM FARR, California
JESSE L. JACKSON, JR., Illinois
CHAKA FATTAH, Pennsylvania
STEVEN R. ROTHMAN, New Jersey
SANFORD D. BISHOP, JR., Georgia
BARBARA LEE, California
ADAM B. SCHIFF, California
MICHAEL M. HONDA, California
BETTY MCCOLLUM, Minnesota

---

[1] Chairman Emeritus

WILLIAM B. INGLEE, *Clerk and Staff Director*

DEPARTMENT OF TRANSPORTATION, HUD, AND RELATED AGENCIES APPROPRIATIONS FOR 2013

THURSDAY, MARCH 8, 2012.

DEPARTMENT OF TRANSPORTATION—FY 2013 BUDGET

WITNESSES

HON. RAY LAHOOD, SECRETARY, DEPARTMENT OF TRANSPORTATION
CHRIS BERTRAM, ASSISTANT SECRETARY, BUDGET AND PROGRAMS, DEPARTMENT OF TRANSPORTATION

CHAIRMAN LATHAM'S OPENING STATEMENT

Mr. LATHAM. The subcommittee will come to order. We want to welcome the Secretary of Transportation, and our good friend, Mr. Ray LaHood, here this morning, and we want to say how pleased we all are that your son is back safely.

Secretary LAHOOD. Thank you.

Mr. LATHAM. We all hope they have a wonderful honeymoon, finally. Much delayed.

Secretary LAHOOD. Yes. Thank you.

Mr. LATHAM. That is great, great news.

The Secretary will be testifying on behalf of DOT's fiscal year 2013 Budget Request and we look forward to his testimony. This year, we will have a short hearing schedule and hopefully an early markup schedule, right, Mr. Chairman?

Mr. ROGERS. Absolutely.

Mr. LATHAM. We are not able to schedule separate DOT modes for individual hearings. However, we are providing Members the opportunity to question the Secretary today. We will also hear from a panel of DOT administrators, for highways, transit, rail, and aviation on Thursday, March 22. This year, the department is requesting authority to spend almost $74 billion in fiscal year 2013. Last year, if you remember, we went round and round on when we would see DOT's legislative proposal and pay-for to fund the fiscal year 2012 program. Great debate went into what was going to hopefully be a successful re-authorization bill before the trust fund went broke. Like the saying goes, just when you thought it could not get any worse, sure enough, it does get worse. We seem to be at a crossroads, literally, with the future of investment in transportation, infrastructure, and financial solvency hanging in the balance.

So far, we are not seeing any proposals in terms of length, costs, financing, or policy that will pass both the House and the Senate. And I do not think the administration's proposal of using the OCO

funds, making transportation funds mandatory, or the requirement that livability be used as a criterion for awarding funds, will garner the required votes either. We need to find middle ground for everyone. There are a lot of people out there who want to see a robust, long-term transportation bill, as we all do, but we need to find a way to pay for it.

Right now, the mandatory programs are the largest contributors to our budget programs. Without a long-term, realistic, or even sensible funding stream, I do not know how we can really advocate for moving transportation over to the mandatory side of the ledger. A lot of that spending is where the problem is to begin with and to add more over there would not be wise. A lot of Members looking to reduce spending put eliminating the OCO funds at the top of their list of things that we can do to reduce the budget.

I am looking forward to a lively debate on all things related to the budget, both current and proposed. Again, welcome, Mr. Secretary. It is nice to have you back.

Before we go to your opening statement, I will recognize the gentleman from Massachusetts. This will be his last hearing with the secretary, but Mr. Olver is recognized.

RANKING MEMBER OLVER'S OPENING STATEMENT

Mr. OLVER. Thank you very much, Mr. Chairman. I, too, join with the Chairman in your joy of having your son back.

Secretary LAHOOD. Thank you.

Mr. OLVER. One of the things that is possible for a ranking member, you do not have to get quite as deeply into the details as the chairman of this committee, so, I kind of take, I think, a more generalized view.

Mr. Secretary, it is a pleasure to have you here, really, today. The department's budget request reflects the ambitious vision needed to ensure America's competitiveness in the global economy through job-creating investments in our Nation's transportation infrastructure. Overall, your budget request provides structural guidelines for a robust, 6-year, $476 billion Surface Transportation Program, and that is what we need. It reflects a growing consensus among partisan professionals that increased public investment in our transportation system as needed to maintain an efficient foundation for our economy.

As you are well aware, DOT's most recent conditions and performance report quantified the investment gap to maintain our current system of roads and bridges and good repair at $27 billion and an annual gap of $96 billion to expand the system to meet the needs of a population which continues to grow and will continue to grow at 9 or 10 percent per decade.

For transit, repair backlog is nearly $78 billion. Unfortunately, the House Reauthorization Proposal does not meet the challenge. The threat of inaction, the uncertainty of short-term extensions, or worse a lapse, disrupting state planning activities and putting the upcoming construction season in jeopardy, not only allows our infrastructure deficit to increase, but it comes at a time when the unemployment rate within the construction sector stands at 18 percent.

I am pleased that the administration continues its leadership in advocating for a 21st century passenger rail network. The $2.5 billion in requests for rail programs and your commitment to the TIGER Grant Program reflects an understanding that all users of all modes benefit from an interconnected network that increases transportation options, and that an all-of-the-above strategy is needed to meet the transportation needs of population expected to grow by another 100 million people by 2050.

In addition, I am pleased to see that the 2013 budget remains committed to the development of a next-gen air traffic control system. It is clearly a complex management undertaking, but I believe it is vital to efficiently utilizing our airspace, reducing congestion, improving safety, and minimizing aviation's environmental footprint.

Finally, the department must remain vigilant when it comes to the agency's core safety mission. From day one, you embraced this responsibility for all modes and specifically have made raising awareness of the dangers of distracted driving a personal crusade, and I appreciate that. That has become more and more important. Your pipeline safety reform initiative would add newer inspectors to provide oversight of interstate and intrastate pipeline facilities. I believe the budget request you submitted is robust and presents a strong vision for how we tackle our evolving transportation challenges.

So, Mr. Chairman, I yield back.

CHAIRMAN ROGERS' OPENING STATEMENT

Mr. LATHAM. Thank you, gentlemen.

We have the honor to have the chairman of the full committee here, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. Secretary, Ray, welcome back to your own turf here.

Secretary LAHOOD. Good morning. Thank you.

Mr. ROGERS. We are glad to see you here and we are delighted about your son's return safely from Egypt.

Secretary LAHOOD. Thank you.

Mr. ROGERS. When I came to the Congress before you, in 1981, discretionary spending was about two-thirds of the whole budget. One-third was entitlements. Today, it is just the reverse. Two-thirds of the money the government spends is for entitlements, mandatory spending. We have no choice, the Congress, in appropriating those funds. They are automatic. You qualify for food stamps, you get them. If you qualify for Social Security, you get it. It does not take an act of Congress, it does not take an appropriation. So, we have no real effective oversight of that spending and it is eating us alive.

Last calendar year, when Republicans took over the Congress, there had not been any appropriations bills passed for that fiscal year and we were four months or so into that year already. So, we had to pass a FY 2011 spending bill, which took the form of a large omnibus, H.R. 1. We finally passed it. And then we had to do FY 2012 because it was coming up that October 1 and we finally passed that one in a large omnibus bill, a huge undertaking. So, we passed two appropriations bills in one year. I do not think that

has ever been done. But most importantly, we cut discretionary spending in both of those years, in succession, which has not been done since World War II. We actually cut spending two years in a row in this hard atmosphere.

Discretionary spending is not the problem now, it is the mandatory, it is the entitlements, it is two-thirds of all the money we spend. We borrow 42 cents of every dollar we spend, most of it from China. We cannot go on like this. We have to wrestle this thing to the ground and mandatory entitlement spending is something we cannot increase. It is growing iteratively, it seems, already.

So, why am I preaching to you on this? Because we simply cannot afford to add any more money to the mandatory side of the budget. That is where we have to fight to lower that spending, and as we try to pass some of a bill here to fund highway construction and the like, we have got to figure out a way to keep that out of mandatory.

Now, none of us singly have the answer, including Mr. Secretary, I do not think, to the problem of the diminishing trust fund. We have got to figure that out, but no one has the answer yet.

You have got a bushel load of problems that you have taken on. We congratulate you on your work, welcome you to the committee, and look forward to hearing from you.

Secretary LAHOOD. Thank you.

Mr. LATHAM. Thank you, Mr. Chairman, and another sad day and the last time Mr. Dicks will have a chance to visit with the secretary of transportation here on their budget. So, we welcome the gentleman from Washington.

RANKING MEMBER DICKS' OPENING STATEMENT

Mr. DICKS. Thank you, Mr. Chairman. I am glad to see the subcommittee beginning consideration of the Fiscal Year 2013 Transportation HUD Appropriation Bill. This subcommittee funds absolutely critical projects that equate to real, on the ground jobs which play a crucial role in putting Americans back to work.

Secretary LaHood, it is always good to see you and I thank you for being here today to talk about the administration's request and to make the case for further infrastructure funding. You have been a great friend of this committee and of mine over the years. A superbly effective advocate on transportation issues and one of our finest transportation secretaries. And I also appreciated the fact that you came all the way out to Bremerton, Washington, and rode the ferry across from Seattle and helped me christen our new tunnel in Bremerton. My hometown, by the way.

The President's Budget Request for Fiscal Year 2013 acknowledges the infrastructure deficit facing this country. We have seen study after study, blue ribbon panel after blue ribbon panel chaired by both Republicans and Democrats, all calling for substantially higher levels of investment in our Nation's roads, bridges, airports, and public transportation systems. The American Society of Civil Engineers gives us roads and highway infrastructure a grade of D- and this is the greatest country in the world, D-, while economists, organized labor, and even the U.S. Chamber of Commerce all concur that infrastructure investments are immediately necessary. Transportation is vital to our economy, moving products to market,

getting workers to their jobs, and allowing people to move about within their communities.

The fiscal year 2013 budget request puts forth a blueprint for investing in our infrastructure, including the appropriation requests in 2013 in addition to the $476 billion reauthorization proposal that is outlined in this budget. We are now just a little more than three weeks until the highway funding is once again set to expire. I sincerely hope that the majority in the House can put together a sensible reauthorization proposal that our side will find acceptable and that will provide all of our cities and states with the ability to make long-range planning decisions. These short-term extensions cannot keep going on. It is just not effective governance.

I know there have been partisan disagreements about the stimulus package that was approved two years ago, but in my view and the view of most learned economists, the stimulus did not go far enough in providing for infrastructure funding. We sort of put more of the money in the infrastructure. These projects actually put people back to work, provide business for private contractors, and get money flowing back into the economy and we still need growth.

Now with respect to the 2013 budget proposal, I believe this is a request that responds to some of our most critical challenges facing our national infrastructure. I am pleased with the administration's continued commitment to passenger rail and other mass transit and I am encouraged by the inclusion of new funding for the TIGER Discretionary Grant Program, which is truly accomplished what its full title intended, transportation investment, generating economic recovery. This has been an extremely popular and effective program, Mr. Secretary, not just among states and localities, but also among Democrats and Republicans here in the Congress, as well as tens of thousands of other constituents whose jobs have been supported by this program.

Again, I want to thank you for being here and also we are really very happy your son was released and you have been the model of bipartisanship. And, Mr. Rogers, I have tried in your absence to restore a little regular order up here and we are looking forward to working together this year on a bipartisan basis. Thank you.

Mr. LATHAM. Thank you, Mr. Dicks. After the secretary gives his opening statement, we are going to be going back and forth here on the five-minute rule. We have votes expected at about 11:15, 11:30, ground there. So, we hope to conclude the hearing at that time. I would hope people would not extend, Mr. Olver, past that. [Laughter.]

SECRETARY LAHOOD'S OPENING STATEMENT

Secretary LAHOOD. Mr. Chairman, you have my statement, and in the interest of time, if you want to just put it in the record, I will happy to just begin with questions so that everybody gets a fair shot here.

[The statement of Mr. LaHood follows:]

STATEMENT OF
THE HONORABLE RAY LAHOOD
SECRETARY OF TRANSPORTATION

BEFORE THE
APPROPRIATIONS SUBCOMMITTEE ON
TRANSPORTATION, HOUSING, AND URBAN DEVELOPMENT AND RELATED AGENCIES
UNITED STATES HOUSE OF REPRESENTATIVES

March 8, 2012

Introduction

Chairman Latham, Ranking Member Olver, and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the Administration's fiscal year (FY) 2013 budget request for the U.S. Department of Transportation. The President is requesting $74 billion for Transportation in FY 2013.

The President has called on us to rebuild America – to put people back to work repairing our roads, bridges, transit systems, and airports. To achieve this, he has laid out a blueprint for "an America that's built to last" -- a plan that will equip American workers to seize the opportunities of tomorrow and make certain that businesses and families have the safest, fastest, and most efficient ways to connect with these opportunities.

President Obama has proposed a six-year transportation jobs plan that puts people back to work rebuilding our airports, roadways, railways, and transit systems. The FY 2013 President's Budget reflects the first year of this bold six-year $476 billion reauthorization proposal that will transform the way we manage surface transportation for the future.

This proposal will be fully paid for. We will pay for the investments proposed under the Surface Transportation Reauthorization Proposal with the savings achieved from ramping down overseas military operations to do some Nation-building right here at home.

Investing in America's Future by Rebuilding Our Infrastructure and Creating Jobs

Investment in transportation is critical to the success of our Nation's economy. The FY 2013 President's Budget for the Department of Transportation will enable us to build America's infrastructure for the future – while putting people back to work today. The President's $476 billion six-year surface transportation reauthorization proposal will

improve the Nation's highways, transit, and rail infrastructure and will ensure that these systems are safe.

The President's FY 2013 Budget requests $2.5 billion, the first year of $47 billion over six years, to continue construction of a National high-speed rail network. The Federal Railroad Administration is working with States across the country to plan and develop high-speed and intercity passenger rail corridors. These projects include upgrades to existing services, as well as entirely new rail lines exclusively devoted to 125 to 220 miles per hour trains. These corridors will promote economic expansion, create new choices for travelers, reduce National dependence on oil, and foster livable urban and rural communities. The President's FY 2013 Budget requests $42.6 billion, the first year of $305 billion over six years, in funding for road and bridge improvements and construction – a 34 percent increase over the previous authorization. It will also simplify the highway program structure, accelerate project delivery, and realize the benefits of highway and bridge investments to the public sooner. These investments and reforms will modernize our highway system while creating much-needed jobs. The proposal consolidates more than 55 programs into five new programs that invest in roads most critical to the National interest: the National Highway Program; Highway Safety; Livable Communities; Federal Allocation; and Research, Technology, and Education. It also establishes a performance-based highway program in the critical areas of safety and state of good repair, and provides resources and authorities to spur innovations that will shorten project delivery and accelerate the deployment of new technologies.

The President's FY 2013 Budget requests $10.8 billion, the first year of $108 billion over six years – a 105 percent increase – in funding for transit. It will prioritize projects that rebuild and rehabilitate existing transit systems, include an important new transit safety program, and allow larger transit authorities (in urbanized areas of 200,000 or more in population) to temporarily use formula funds to cover operating costs in limited circumstances.

The Administration's Surface Transportation Authorization proposal also acknowledges the important role that innovation and modern business tools play in putting our transportation dollars to work wisely. We can no longer afford to continue operating our systems the same way we did 50 years ago, with outdated processes and financial tools that were made for yesterday's economy.

Recognizing that competition often drives innovation, the FY 2013 Budget requests $700 million, the first year of nearly $20 billion over six years, for a "race-to-the-top" style incentive program, called the Transportation Leadership Awards, to encourage fundamental reforms in the planning, building and management of the transportation system. This program would reward States and regions that implement proven strategies that further the Department's strategic goals, strengthen collaboration among different levels of government, focus on performance and outcomes, and encourage the development of a multimodal transportation system that connects people to opportunities and goods to markets. Examples of best practices that applicants might implement to compete in this program include passage of a primary seatbelt law, use of lifecycle cost analysis, aggressive deployment of operating practices that reduce need for more costly congestion solutions and implementation of a performance-based funding distribution system.

We will also be leveraging our Federal investment farther than we ever have before through the use of Federal infrastructure loans, which enable State and local governments to significantly leverage Federal dollars when financing transportation infrastructure. The FY 2013 Budget requests $500 million, the first year of $3 billion over six years, for the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. The TIFIA program leverages each $1 of Federal funds into $10 of credit assistance, which supports $30 in transportation infrastructure investment. Therefore, our $3 billion TIFIA investment is expected to produce up to $90 billion in transportation infrastructure projects.

In addition, the President's Budget makes the investments that we need to strengthen America's small towns and rural communities. Increased highway funding will expand access to jobs, education, and health care. Innovative policy solutions will ensure that people can more easily connect with regional and local transit options – and from one mode of transportation to another.

At the same time, our proposal will bolster State and metropolitan planning; award funds to high performing communities; and empower the most capable communities and planning organizations to determine which projects deserve funding.

Modernizing Our Nation's Transportation System through Research and Technology

The FY 2013 President's Budget request will support the success of our economy by ensuring that our transportation investments keep pace with the latest innovations and advancements in technologies.

For example, the Federal Aviation Administration (FAA) is in the middle of undertaking the largest transformation of air traffic control ever. The FY 2013 President's Budget requests $15.2 billion to support the FAA current programs in the areas of air traffic controller and safety staffing, research and development, and capital investment – and over $1 billion of these funds will be used to advance the modernization of our air traffic system through "NextGen" – the next generation of air traffic control technology. Using satellite surveillance, new methods of routing pilots, planes, and landing procedures, NextGen will change how Americans fly.

In addition, we will be focusing our efforts on unmanned aircraft systems (UAS), which will play an increasing role in both federal and civil missions, including homeland security, National defense, law enforcement, weather monitoring and surveying. Currently, technical and procedural barriers still exist in the interoperation of UAS with manned aircraft in the National Airspace System (NAS). In FY 2013, the Joint Planning and Development Office (JPDO) will lead efforts with the NextGen partners to formulate and develop a National plan that will achieve the integration of UAS into the NAS, and accelerate strategic decision making on UAS implementation issues.

The FY 2013 budget also proposes to elevate the vital role research plays in transportation decision-making by moving the Research and Innovative Technology Administration (RITA) into a new Office of the Assistant Secretary for Research and Technology. This proposal will strengthen research functions across the Department by

providing a prominent centralized focus on research and technology, which will improve collaboration and coordination between the Department's Operating Administrations.

We will also promote research into Intelligent Transportation Systems, including Vehicle-to-Vehicle technologies. Vehicle-to-Vehicle (V2V) connectivity provides constant communication between vehicles to warn drivers of the potential risk of a collision. In FY 2013, the Intelligent Transportation Systems (ITS) program will dedicate a total of $22.4 million to the V2V program, and the corollary programs including human factors research, the implementation of a safety pilot, vehicle connectivity policy research and standards development to further explore and advance technologies that will ultimately reduce the number of collisions and save lives.

Pressing Forward on Safety

Keeping travelers on our transportation systems safe is my top priority. That is why preventing roadway crashes continues to be a major focus at the Department. In FY 2010, highway fatalities were the lowest since 1949 – and yet over 30,000 lives are still lost each year on our Nation's highways.

Our budget proposes a record level of investment in safety. The FY 2013 Budget requests $981 million, the first year of $7.5 billion over six years, for the National Highway Traffic Safety Administration to promote seatbelt use, get drunk drivers off the road, and ensure that traffic fatality numbers continue dropping from current historic lows. Within this amount, $50 million in FY 2013 and $330 million over six years is provided for the Department's ongoing campaign against America's distracted driving epidemic. In addition, we will almost double the investment in highway safety infrastructure funding over six years. The FY 2013 Budget requests $2.5 billion, the first year of $17 billion over six years, for Federal Highway Administration (FHWA) safety construction programs. The FY 2013 Budget also requests $580 million, the first year of $4.8 billion over six years for the Federal Motor Carrier Safety Administration (FMCSA) to ensure that commercial truck and bus companies maintain high operational standards, while removing high-risk truck and bus companies and their drivers from operating.

Transit safety is another important priority. Rail transit provides over four billion passenger-trips each year, and safely moves millions of people each day. However, as shown by recent accidents and safety-related incidents, we need to strengthen the existing Federal transit oversight authorities in order to maintain the safe performance of our transit systems. The FY 2013 President's Budget proposes $45 million to enable the Federal Transit Administration to oversee rail transit safety across America. Funds will be used to develop, promote, and conduct safety oversight activities for rail transit systems Nationwide.

Finally, our safety focus must also include the transportation of hazardous materials and our network of pipelines. The President's FY 2013 budget requests $276 million for the Pipeline and Hazardous Materials Safety Administration to help ensure that families, communities, and the environment are unharmed by the transport of chemicals and fuels on which our economy relies. We are proposing a new Pipeline Safety Reform initiative that will expand the oversight of our Nation's pipeline system.

Under this initiative, we will hire 120 new inspectors and provide an additional $20.8 million in grant funding to work collaboratively with the States on the oversight of interstate and intrastate pipeline facilities.

Conclusion

Thank you for the opportunity to appear before you to present the President's FY 2013 budget proposal for the Department of Transportation and our Surface Transportation Reauthorization proposal. Our infrastructure belongs to all of us. It is more than the way we get from one place to another; it is the way we lead our lives and pursue our dreams. The President's plan charts a bold new course for transportation infrastructure investment in the United States over the years to come. I look forward to working with the Congress to put people back to work making a transportation system that is the envy of the world – and an America that is built to last.

I will be happy to respond to your questions.

# # #

Mr. LATHAM. Okay. Well, if you had any comments in opening that you would like to make, go ahead.

Secretary LAHOOD. I think a lot of this is going to come out in the questions, but let me just, on a personal note, say thank you to all of you for your expressions for my family. We appreciate that very much. And I am happy to answer questions.

Mr. LATHAM. Okay, thank you. That is probably the briefest opening statement I have ever heard. [Laughter.]

Mr. ROGERS. It is the smartest move I have seen in a long time. [Laughter.]

HIGHWAY TRUST FUND

Mr. LATHAM. While we are in the middle of this reauthorization bill, given certain scenarios out there, what happens to the Highway Trust Fund if there is no extension beyond March 31?

Secretary LAHOOD. We have sufficient funds to carry us through the Summer of 2013?

Mr. BERTRAM. Thirteen.

Secretary LAHOOD. Yes. Chris Bertram, my CFO, is with me, and Chris tells me that we have funding, I am going to let him say it correctly, but through next year. Chris, do you want to——

Mr. BERTRAM. There is enough funding in the trust fund through next year, but I think your question is if there is no extension of——

Mr. LATHAM. Right.

Mr. BERTRAM [continuing]. The expenditure authority at the end of March. First, what really happens is the people that work at the Federal Highway Administration that actually administer the Federal Aid Program cannot come to work because we cannot pay them. That means that we need to stop reimbursing the states for the projects they have underway. It is about 130,000 active Federal aid projects that would not be able to be reimbursed by the Federal government. The states would either have to stop those projects or they would have to find other funds to keep those projects going. It would also affect the Federal Motor Carrier Safety Administration and some of the grants that the Federal Transit Administration administers.

Mr. LATHAM. So, you are saying there is enough money in the pipeline assuming there was an extension?

Mr. BERTRAM. Right. We think the trust fund this fall in the highway account would reach about a $4 billion balance. That is the time when we start monitoring the trust fund very carefully. Our current projections are that we would not have to slow down reimbursements to the states until next summer some time.

DISCRETIONARY/MANDATORY GRANTS

Mr. LATHAM. You have got proposals for discretionary grants, and we do not have a copy of the exact legislative proposal, but how many programs and how many dollars in highway and transit modes are competitive grants where the awards are left to the discretion of the secretary?

Secretary LAHOOD. Do you know the answer to that, Chris?

I do not, but we will have to get that for the record, Mr. Chairman. I do not think we have that, do we?

Mr. BERTRAM. No, we do not. We do not have it.

[The information follows:]

The FY 2013 President's Budget request for the Federal Highway Administration includes $1.9 billion for three competitive discretionary programs: $500 million for the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program, $700 million for the Transportation Leadership Awards and a total of $700 million for the non-formula portion of the Livable Communities Program.

The FY 2013 President's Budget request for the Federal Transit Administration includes $2.4 billion for five discretionary grant programs: $2.2 billion for the Capital Investment Grants program, $27 million for Transit in the Parks, $15 million for Tribal Transit, $30 million for Livability Demonstration Grants and $50 million for Greenhouse Gas and Energy Reduction Demonstrations.

Mr. LATHAM. Now, given your proposal making the highway and transit funds mandatory, does that not kind of fly in the face against the discretionary grants? Why do we not have a proposal to make everything mandatory or formula-driven?

Secretary LAHOOD. Go ahead Chris.

Mr. BERTRAM. Well, I think there is a balance between——

Mr. LATHAM. Oh, come on, Ray. [Laughter]

Secretary LAHOOD. I am not going to say something here that—I would rather let Chris answer.

Mr. LATHAM. Okay.

Mr. BERTRAM. I think there is a balance between regular formula-driven programs that go to the states and to transit authorities to provide a base amount of funding and the discretionary grants that can be given for larger, major infrastructure projects above the regular formula. In our reauthorization proposal, we will continue to have a program for discretionary bridge, discretionary interstate, and in transit, we would have the New Starts Program.

SURFACE REAUTHORIZATION

Mr. LATHAM. Last year, we had a debate about where we get the money and what we——

Secretary LAHOOD. Yes.

Mr. LATHAM [continuing]. Do for the reauthorization. Language last year contingent upon enactment of a multiyear surface transportation authorization legislation was based on what the appropriation was.

Have you put forth a reauthorization bill proposal?

Secretary LAHOOD. Well, what we have put forth is the President's budget, which is a $500 billion budget, which is paid for. Unlike the last two years that I was here when many of you criticized the administration or at least asked a lot of hard questions about how do you pay for what you want to do, we pay for it this year. Half of it comes out of the Highway Trust Fund and the other half comes out of the Iraq/Afghanistan War Fund, which, by the way, has been scored by CBO. So, the idea that we have not paid for it is not accurate. If you want to know what our priorities are, if you want to know what the President's priorities are when it comes to transportation, they are laid out in his budget and they are paid for.

Mr. LATHAM. But you have not put forth a proposal?

Secretary LAHOOD. We put forth the President's budget. Look, we have provided a lot of technical assistance, to the T&I Committee, when it comes to their bill and we have provided a lot of

technical assistance to all of your staff when they have asked for it when it comes to putting your bill together. Everybody knows what our priorities are, and if you do not, look at the President's budget.

Mr. LATHAM. Okay. I am out of time.

Mr. Olver.

HIGHWAY TRUST FUND

Mr. OLVER. Well, I can see this is going to end up being a discussion on semantics. The President's budget has in it, as I understand it at least, a broad outline for what a very robust program should be with the how to pay for it, as you have indicated. The proposals that we have on either side, the first proposal coming from the actual writing of the legislation has always been left to the legislature, to the Congress. In my 20 years, we have not had legislation for any of the reauthorization programs that have originated in the Executive, but here because of the tangle, we have this deadline on the end of March with which if that goes by and we do not have a reauthorization, then there is what I talked about as a possible lapse and the confusion and the really obstruction essentially of planning for a future program and you do not know how and when you are going to get it back going, even though we may have money, if I understand from what—and you do not have a tag, so, I forget names.

Mr. BERTRAM. Yes, Bertram.

Mr. OLVER. Mr. Bertram, you have said that the trust fund monies that you expected to go in will take us through the fiscal year 2013.

Mr. BERTRAM. Correct.

Mr. OLVER. And did you mean also into fiscal year 2014 at all or only through this fiscal year?

Mr. BERTRAM. Well, we are in fiscal year 2012, so, we think that the trust fund on our projections under baseline spending will have enough money until this fall to where it reaches the point where it has about a $4 billion balance, which is when we start watching the balance more carefully. We do not think we will actually hit a critical point where we have to slow down spending from the trust fund until the summer of next year, which is 2013, which is the fiscal——

Mr. OLVER. Which is in the 2013 fiscal year.

Mr. BERTRAM. Fiscal year, right.

METROPOLITAN TRANSPORTATION

Mr. OLVER. Okay. Well, thank you for that clarification.

In any case, the proposal ended up removing transit from the trust fund issue and covering only the highway business, but urbanization is going on in this country. This last census puts quite a number of millions of people. We are now up to 4 out of 7 people are in our metropolitan areas, which have more than 1 million people in them. That number of metropolitan areas of that size goes up each census, but in this instance, we are now at 57 percent of the total population of the country is in those 50 metropolitan areas with over 1 million population. And so, to put them adrift in this process when those are the places where the exceptional need

seems to me for doing infrastructure sort of as you go, helping them out to get planning and to get into these constructions before they grow even worse and the problem becomes geometrically worse, that is important.

So, your program paid for, even though it is with the OCA, we have to find a different way to pay for it if we are not going to pay for it as the administration has proposed. It is the underlined yellow here and I am perhaps already wandering in my comments. [Laughter]

But is clear that the administration is laying forward what the need is for the economy and for an effective economy which we must grow, as well. The best way to get out of our budgetary problems and our deficit problems is to grow the economy and this kind of investment is necessary for that.

I will yield back.

Mr. LATHAM. You have no questions?

Mr. OLVER. I have no questions.

Mr. LATHAM. No questions.

Mr. OLVER. No questions.

Mr. LATHAM. Thank you very much, Mr. Olver.

Mr. Rogers.

TRANSPORTATION PAY-FOR

Mr. ROGERS. Thank you, Mr. Chairman. Mr. Secretary, last year and again this year, you are proposing to move all surface transportation outlays to the mandatory side of the budget, $60.3 billion. You know, you tried that last year and we said no way, and you are trying it again this year and I have got a feeling we are going to say no way.

And, you know, I think your justification was it was in the Simpson-Bowles Commission recommendation. Well, there were other provisions of the Simpson-Bowles plan, which you have conveniently ignored. For example, they proposed increasing the gas tax by 15 cents or tying current year's spending to previous year receipts. Both of those you said we are not going to do that. But you conveniently picked this, I am going to call it a gimmick, to move the funding to mandatory and outside the purview of this Committee; outside the oversight of this appropriating committee.

We have the responsibility to guard every penny that is spent. Except when it goes to mandatory and entitlements, it escapes our oversight and I do not like to see that happen, you might guess. So you know, you are proposing to take OCO money, assuming there is money in OCO, the wind down of the wars, there are 50,000 other agencies with their eye on that fund of money, if there should turn out to be that kind of money. So I do not really believe that you have given us a realistic option here and you are going to leave it to us to try to figure out what to do to fill that $60.3 billion hole that is in your budget because you have not responsibly given us a route to travel. So how do you advise us to fill that hole?

Secretary LAHOOD. Well, take your lead from the President's budget. Look, for two——

Mr. ROGERS. That is what I just got through talking about.

Secretary LAHOOD. For two years, Mr. Chairman, people have sat up there and criticized us for no-pay-for. We are not going to

raise the gas tax. The President has been against raising the gas tax since the day he was sworn in. So that has not changed.

So we take the Highway Trust Fund, the money that is in there, and we take the remainder from the Iraq-Afghanistan Fund. Now, there may be 50 people lined up, but our budget was put together with our colleagues at OMB. So we assume that when they sign off on this, this is one of the priorities the President wants the money used for. So we have a pay-for.

Mr. ROGERS. What is that old saying, the President proposes, and what is it?

Mr. CARTER. Congress disposes.

Mr. ROGERS. Congress disposes. Well, I am here to tell you we have already disposed of that provision. And so we have got to have something more constructive and we would rather do it with your absolute cooperation.

Secretary LAHOOD. Well, look, we are more than willing to cooperate. We are willing to sit down with anybody that wants to. We need a transportation bill, Mr. Chairman, and we need the money to pay for it.

SURFACE REAUTHORIZATION

Mr. ROGERS. I agree we need a transportation bill or we are wrestling with that even as we speak. The Senate Bill, two years, we are trying to draw up a House Bill of five-year extension.

Secretary LAHOOD. Mm-hmm.

Mr. ROGERS. Which would you prefer?

Secretary LAHOOD. What I would prefer is that you use the model that the Senate used, which begins with bipartisanship, where the chairman and the ranking member—you have Chairman Boxer and Ranking Member Senator Inhofe, who sat together around a table with their members and put together a bipartisan bill which was voted 18 to nothing out of their committee. And now it is going to be debated in the Senate. Use that bipartisanship as a model. If you begin there I think you will get a bill. And theirs is paid for, by the way.

Mr. ROGERS. It is two years. It does not solve the long-term insolvency problem that is haunting all of us. We are trying to find a bill that would be a five-year extension that tries to solve the long-term insolvency problem that is hampering states, localities, private enterprise from making some kind of long-term planning on how to spend the money. Would you not prefer a five-year extension?

Secretary LAHOOD. Well, first of all, I would prefer that Congress passed a transportation bill that reflects the values of the American people; reflects the values of what Congress has always done. Now, I served on the T&I Committee and I also served on this Committee. And when we served together we did things in a bipartisan way. There was no more bipartisanship than came out of the Appropriation Committee and the T&I Committee, and I sat next to Mr. Latham on that committee when we put together two bills that passed the House with 400 votes and the Senate with 80 votes. That is the way you do it. That is the way it has always been done.

Mr. ROGERS. Would you prefer if we have a two year extension?

Secretary LAHOOD. I would prefer Congress pass a bipartisan bill that reflects the values of the American people.

Mr. ROGERS. All right.

Mr. LATHAM. Thank you, Mr. Chairman. Mr. Dicks? Gone. Mr. Pastor.

ARIZONA TRANSPORTATION

Mr. PASTOR. Thank you, Mr. Chairman. Good morning, Mr. Secretary.

Secretary LAHOOD. Morning.

Mr. PASTOR. First of all, let me thank you for your years of public service as secretary, as well as in the Congress.

Secretary LAHOOD. Thank you.

Mr. PASTOR. And I am also very happy to hear about your son.

Secretary LAHOOD. Thank you.

Mr. PASTOR. I will take my time to thank you for all of the efforts in developing the light rail system in Maricopa County, as well as the efforts the Administration has done in Pima County in Tucson, and so it is very important to us.

I can tell you that the first 20 miles are completed and the ridership has doubled. And with the gas prices as they are, we probably will see increased ridership, and so we are taking advantage of the transportation system that we have in Maricopa County.

With your support we are going to continue to expand the light rail system. The next three miles is in Eastern Maricopa County, which happens to be in Congressman Flake's district, so we are also going into the eastern part of Maricopa County. And with the investigative money that the department has invested, we are now looking for expansion to Western Maricopa County as well as Southern Maricopa County. So we are very appreciative and very happy that the system is going to continue to expand and provide public transportation for many people in the county.

An initiative that this subcommittee started in terms of having HUD and Department of Transportation provide grants in terms of how do you develop the light rail system for affordable housing, economic development, commercial development. With the recent grant that we received, we are now planning to take the light rail system and meet the objectives of the initiative with affordable housing and economic development and commercial development. So we are on track.

We also want to thank you because you have supported ADOT, the Arizona Department of Transportation, in how we can—well, we are investigating the feasibility of building a commuter train between Phoenix and Tucson, which would connect in Arizona the two largest urban areas and connect 85 to 90 percent of the population in Arizona.

And so I thank you for all of those efforts, and on behalf of my constituents and the people of Arizona, we thank you for that. As you know, about a year ago the entire, we sometimes surprisingly get them all together, but the entire Arizona Delegation, including our two senators, contacted you in designating a north-south corridor, as we propose the Interstate 11. That would basically serve as a corridor from the border in Mexico north.

And we have worked jointly with the delegation of Nevada, as well as the entire Arizona delegation. I just have the question as what is the progress of this designation within your department?

Secretary LAHOOD. You know what, Mr. Pastor? I will get back to you. I do not know where that stands, but I will get you an answer. And I want to thank you and your colleagues who have shown great leadership in your state for these projects that you mentioned. We cannot do what we do unless we have good leadership, and you all have really stood up and said this is the kind of transportation that we need in our state. And it has made a difference and it will continue to make a difference, and we look forward to working with you on these important projects, and I will get back to you on the designation.

[The information follows:]

The Arizona and Nevada State Departments of Transportation must submit a designation request to the U.S. Department of Transportation through the Federal Highway Administration (FHWA) Division Office in order to begin the review process for Interstate 11. Designation requests should include a route description, justification, and have the recommendation of the State involved. In a letter dated July 14, 2011, the Department informed the Nevada and Arizona delegations that to date FHWA has not received a request to designate Interstate 11.

Mr. PASTOR. Thank you very much. I will yield back, Mr. Chairman.

Mr. LATHAM. Thank you, gentlemen. The gentleman from Texas, Mr. Carter, the judge.

PORTS

Mr. CARTER. Thank you, Mr. Chairman. Once again, Mr. Secretary, welcome.

Secretary LAHOOD. Thank you.

Mr. CARTER. And I am really happy for the good fortune of your family.

Secretary LAHOOD. Thank you.

Mr. CARTER. Many of us were praying for you.

Secretary LAHOOD. I know that, thank you.

Mr. CARTER. I want to start off with a question I got from one of my city managers yesterday, and I had lunch with him. He is from Temple and he had just come from this transportation seminar that, I think, you all are probably part of.

Secretary LAHOOD. Yes.

Mr. CARTER. It has been going on here in Washington. And he was talking about our harbor situation. We do not have any harbors in my district.

Secretary LAHOOD. Yes.

Mr. CARTER. But we have a harbor in Texas. It is, I think, the second largest harbor in tonnage in the country. We also have something peculiar to the Gulf Coast states called hurricanes. And when they blow inland, they blow silt up into harbors.

And the discussion yesterday that was held at the transportation seminar was the fact that the Panama Canal is—we have just expanded the Panama Canal. We are major transit. A lot of the China trade is headed for the Gulf Coast. We have one-lane channels at almost every major Gulf Coast port that we have. And the estimate of time to dredge the channels at that seminar yesterday

was 14 years because of the additional regulations that have been imposed since the last time we dredged those channels.

Now 14 years, there is going to be a lot of stuff parked out in the Gulf of Mexico waiting to land over 14 years. And I was shocked by that number. But all of the other regulations, not necessarily directed by your department, but—I would expect, at least, the secretary of—and the Department of Transportation is in the business of making transportation work and should be advocates for transportation projects and helping to fast track dealing with regulations as best you can when we get to these transportation projects.

But it is unacceptable to say that the Houston ship channel has to be a one-lane ship channel for the next 14 years with the China trade sitting out in the Galveston Bay. Do you have any input about these kind of thoughts?

Secretary LAHOOD. Yes. Look, Judge, this is a very important issue. When I came to this job I held a port summit in San Diego, got all of the port directors in the country gathered together. Since that time each year we have had a port summit where we talk about issues like this.

This Administration has given more money to ports, to more ports, than any administration ever. We have done it through our TIGER Program. Now, that money has not been used to dredge; it has been used to increase capacity. We have really tried to help these ports out.

Ports are an economic engine, they provide jobs. We also developed at DOT a program called the Marine Highway Program, which I will send your office a copy of, where we actually use the waterways to relieve congestion and deliver goods around America, in and out of America. That report is out, and we rely on ports.

[The information follows:]

A copy of the Marine Highway Report was provided to Mr. Carter on March 9, 2012.

At the meeting that the governors had with the President two weeks ago, Governor Haley from South Carolina asked the President about this. How can we take some of the Harbor Maintenance Trust Fund and use that to help ports become deeper, dredge them, and cut through the red tape? And what the President said was he would put together, under his Chief of Staff, a working group within the Administration, because he agreed and we agree it takes too long to do the permitting.

And it involves too many Federal Agencies. So we get it, we know it takes too long. It does not take too long because of DOT. We do not have any—you know, we are not standing in the way. We are trying to help ports. But there are agencies within our government that do take too long. And I think the President recognizes it and we hope to get on this immediately.

Mr. CARTER. Yeah, well, as you raised that issue that I was not even going to go into, not only the ports silted up, but there are coastal canals silted up, too.

Secretary LAHOOD. Correct.

Mr. CARTER. And that ships all of the stuff to your part of the country where you came from.

Secretary LAHOOD. Right.

Mr. CARTER. It all moves up the Intracoastal——

Secretary LAHOOD. Right.

Mr. CARTER [continuing]. To service Chicago all of the way over to Pennsylvania. And if those shipping lanes close, it is a bad deal.

Secretary LAHOOD. Right.

Mr. CARTER. And I wanted to raise this issue first because it was raised to me yesterday.

Secretary LAHOOD. Yes.

Mr. CARTER. Especially from a person that is not even connected to port.

Secretary LAHOOD. Right, right.

Mr. CARTER. So I think it is a—I think the President, if that is what he is going to do, I have some other Federal regulations I would love for him to come down to my district and help me cut through them, but——

Secretary LAHOOD. Well, in his absence I would be happy to do that.

Mr. CARTER [continuing]. We made the disclaimer statement not all projects are shovel ready when we think they are shovel ready. I would argue it has to do with other agencies and their new regulations that they are imposing and it is getting to be a real problem.

Secretary LAHOOD. Well, look at, Judge, whenever you invite me, I will come to your district. I do not speak for the President's schedule but I would love to come to your district and meet with you.

Mr. CARTER. We will get you down there.

Secretary LAHOOD. Yes.

QUESTIONS FOR THE RECORD

Mr. CARTER. One more thing.

Secretary LAHOOD. Yes, sir.

Mr. CARTER. You said you would send me something. Last year it took an awful long time to get something. It took us like five months.

Mr. ROGERS. The gentleman's time has expired.

Mr. CARTER. Could you shorten the time if we need to get stuff from you?

Secretary LAHOOD. Sure. What do you need?

Mr. CARTER. Well, last year, in March, I had some questions I do not know now.

Secretary LAHOOD. Oh.

Mr. CARTER. Have those reports you just talked——

Secretary LAHOOD. It took too long and you forgot what it was.

Mr. CARTER [continuing]. No, but last year I forgot what it was. It was way past the time we needed it.

Secretary LAHOOD. You figure out what it is and I will get it to you quickly. [Laughter.]

Mr. CARTER. Okay. Get it there fast, that helps.

Mr. LATHAM. Thank you for being so short there. Mr. LaTourette.

SURFACE REAUTHORIZATION

Mr. LATOURETTE. Thank you, Mr. Chairman. Mr. Secretary, nice to see you again.

Secretary LAHOOD. Thank you.

Mr. LATOURETTE. Just a couple of clean-up matters, and I am sorry Mr. Dicks is not here anymore because, you know, a lot of us did have difficulties with the stimulus bill. And given his comments, the Republican version that often gets overlooked was half as much money and most of it went into infrastructure, and I do not remember Mr. Dicks supporting it. But it is good that he bemoans the fact that the original stimulus bill only put about $68 billion in the infrastructure.

Secondly, I am kind of amazed by the observations that we are coming up against this March deadline and people are sort of saying, well, I cannot believe that this is happening. You know, and I assume most all members of the Committee knows, that the last highway authorization expired in September of 2009.

Secretary LAHOOD. Three and a half years ago.

Mr. LATOURETTE. And at that time the President was the President, the current majority leader in the Senate was the current—was the majority leader, and Ms. Pelosi was the Speaker of the House, and every extension until the beginning of this year was under that storage ship.

And I have to tell you, Representative Cravaack gets really mad at me when I say this, but you had in place an individual as chairman of the T&I Committee that knows more about transportation than any of us will ever know in Jim Oberstar in Minnesota. He had a bill. He had a six-year bill. But he was constrained by Mrs. Pelosi and I think the Administration for moving forward. He paid for it. It was $450 billion. It would have addressed the needs of this country moving forward and it was squashed not by the current bunch in charge now. It was squashed by our friends on the other side of the aisle.

Now we get to the current, and I have read your comments about the Mica bill, and I cannot because of my party affiliation go as far as you did, but I will tell you it is not a satisfactory bill. And I believe that a majority party has the ability to write a partisan bill. We certainly saw that with Mrs. Pelosi. And if you can get 218 votes you can do that.

The difficulty with this—and you are right, I participated in T–21 and SAFE T–LU, and those bills flew out of here. I would love to see a bipartisan bill and I think given the fact that the whip count yesterday was another disaster on the five-year proposal, I think you will see a bipartisan bill when we come back from our recess.

And we have to get 218 votes because the fact of the matter is the Senate has parked their bill at the desk, and even though nobody wants a two-year bill, I think that is disgusting, and it is everybody's failure to deal with the issue that we have seen coming since I got here. Nobody wants to deal with the issue. It is disgusting, but you know at the moment it is the only bipartisan thing in town and we have to get something over there or else all hell is going to break loose. I guess that is enough of that.

I do want to express disappointment in a couple of areas that, you know, there is this business about the President proposes and the Congress disposes. I will tell you, I believe every President since Dwight Eisenhower has submitted the full bill text of their

legislative Highway Trust Fund Reauthorization, either as an executive communication from the President to the Speaker, or a letter from the secretary to the committee chairman. I do not believe that this administration has done that. So that is one disappointment.

Two, this OCO thing is not real, and it continues to create the same type of fiction that the Mica bill does. The Mica bill is dependent upon sticking it to the pension contributions of Federal employees, current and those in the future. That is not solving the trust fund problem.

And your reliance on OCO is not solving the trust fund problem. It may score right, but I read your blogs, I also read Mr. Elmendorf's blogs, and you know that the OCO funding is discretionary. And the way CBO scores that is that they look at what was spent this year and they make it the same number for next year, adjusted for inflation. There is no OCO fund. There is no money lying around that is going to be appropriate. If the wars are over we need the money for other purposes.

There is no stream. So your proposal is not paid for, the Mica proposal is not paid for. The Senate proposal is paid for, with some fancy maneuverings. I still think they have some problems.

But the fact of the matter is, listen, we either have got to go to vehicle miles traveled, somebody has got to have the courage to adopt Simpson-Bowles and actually raise the gas tax 15 cents a gallon, or all we are going to do is continue to have 10-year projected fixes for problems and extensions that go a couple of months, 10 months in the case of the payroll tax. That is why we are broke.

And so I, you know, I like you, I like the President, but this is not a serious pay-for and we have to get past this and fix the Nation's infrastructure problem, and nobody is doing it.

Secretary LAHOOD. Well, Mr. LaTourette, first of all, let me thank you for your leadership. You have been a good friend for Transportation; always have been and always will be. I appreciate what you are doing.

Mr. LATHAM. The gentleman's time has expired. The gentleman from Pennsylvania, Mr. Dent.

BRIDGES

Mr. DENT. Thanks, Mr. Chairman. Secretary LaHood.

Secretary LAHOOD. Good morning.

Mr. LATHAM. Is your mic on?

Mr. DENT. Oh, yeah, it is not. Glad to hear your son is doing okay.

Secretary LAHOOD. Thank you.

Mr. DENT. It is wonderful news. Just a couple of things about bridge replacements. The last time I checked the bridge inventory data suggests about 11.5 percent of our Nation's bridges are rated structurally deficient. Nearly half of the states are above that national average.

Pennsylvania, we have the unfortunate distinction of ranking first in the country for deficient bridges with nearly 6,000, or more than 25 percent, of our bridges in the Commonwealth are in bad shape. And my district is probably the worst in the Commonwealth of Pennsylvania. So we have a lot of deteriorated bridges. You

know what happened with I–35 up in Minnesota, the bridge was replaced in 437 days. That was simply terrific.

I am working with the T&I Committee on language that would make the approval process for these bridges faster and much simpler. The reality is that the Emergency Relief Program cannot fund all of these projects. But I certainly believe that treating these bridges similar to how we treat these emergency projects, you know, cutting the red tape, expediting the process, would go a long way to building our bridge infrastructure.

And to the extent that we replace bridges "as is", I would like to really avoid using all of these various NEPA steps and let us get to work. Time is money and since we cannot find a way to pay for, you know, to replenish the trust fund adequately, if we save time, we save money. I want to get your thoughts about this kind of——

Secretary LAHOOD. We favor that. We just worked very hard with our friends in Ohio and Indiana to open up the Sherman Minton Bridge. We are working with our friends, the Governor of Kentucky and the Governor of Indiana, on some important bridge projects that we are going to speed up because we have to.

These river crossings are very, very important. You all just passed a river crossing bill between the state of Wisconsin and Minnesota, and it had the support of both delegations, with the exception of one person. So if we can speed things up, we will.

Some people know that our Highway Administrator Victor Mendez started a program called Everyday Counts. That program is about moving things quickly. We are not opposed to moving things quickly and we know there are a lot of bad bridges around the country. Nobody wants them fixed up more than we do.

We have had some great partners with our governors and will continue to move things as quickly as we can. We are certainly not opposed to that so anything you can include in the transportation bill we will be happy.

HAZARDOUS MATERIALS SAFETY PERMIT PROGRAM

Mr. DENT. That is good to hear. I appreciate that. And also, a secondary issue that has come up recently, a few weeks ago I met with an explosive company in my district. And they brought an issue to my attention pertaining to the Hazardous Materials Safety Permit Program. And I do not know how familiar you are with that issue.

But since 2005, the Federal Motor Carrier Safety Administration—I do not know, I guess FMCSA; I do not know if that is the right acronym—has implemented a safety permit program for motor carriers of certain hazardous materials intended to ensure a higher fitness standard than required to trucking companies generally.

It is my understanding that under the program, the carrier's fitness is based solely on limited out-of-service violation history, and the current rules do not provide an appeals process for carriers whose permits were denied as opposed to revoked or suspended. I am just concerned that a number of these folks are simply just going to go out of business.

They are just going to go out of business with some rather arbitrary rulings that really are not affecting safety, and I was hoping

that we could have some conversations with your office about this issue.

Secretary LAHOOD. Well, what I will do is I will have Anne Ferro, our administrator, come up and meet with you, Mr. Dent, and talk to you about your concerns and explain the program.

[The information follows:]

Administrator Ferro met with Representative Dent to discuss the Agency's hazardous materials safety program on April 16, 2012.

Mr. DENT. Yeah, because there is some real issues there that I think we do need to deal with.

Secretary LAHOOD. Sure.

Mr. DENT. With that, I see my yellow light is on, too, and I am going to——

Secretary LAHOOD. Okay.

Mr. DENT [continuing]. Thank you.

Mr. LATHAM. Thank you gentlemen. Mr. Diaz-Balart.

CUBA

Mr. DIAZ-BALART. Thank you, Mr. Chairman. Actually what I was going to talk about was already touched on by Chairman Rogers and Mr. LaTourette. I do, however, want to take this opportunity, and you have heard again, but I think it is important that you hear it.

First place, how relieved, frankly, all of us are, because of the relationship that we have with you——

Secretary LAHOOD. Thank you.

Mr. DIAZ-BALART [continuing]. And I think the entire country is, about——

Secretary LAHOOD. Yes, thank you.

Mr. DIAZ-BALART [continuing]. About your son and the entire group of, frankly, really courageous Americans who are willing to, you know, work for democracy around the world.

Secretary LAHOOD. Yeah, thank you.

Mr. DIAZ-BALART. I just also want to remind everybody here now as a kind of point of personal privilege that, you know, this administration seems to be the administration of American hostages. And as we speak, there is an American still being held hostage in Cuba. Since December of 2009, he has lost 100 pounds, his health is frail, his daughter and wife are suffering from—are fighting cancer, and, unfortunately, this administration continues to give unilateral concessions to that terrorist regime.

So I bring that up because as we remember and are grateful for the fact that a group of Americans have been released, still there is one American that is really, really suffering and this administration seems to be either be powerless or just, frankly, unwilling or unable to do anything about it. And let us just not forget other Americans who are suffering as hostages at this time. And we are exceedingly pleased about your son.

Secretary LAHOOD. Thank you.

Mr. DIAZ-BALART. And again, by the way, and also not only pleased that he is here, but I would also, if you could, just—our gratitude for his efforts for democracy.

Secretary LAHOOD. Thank you.

Mr. DIAZ-BALART. Thank you, sir.

Mr. LATHAM. Thank you, gentlemen. Recognize the gentleman from Northwest Arkansas, Mr. Womack.

AIP GRANTS

Mr. WOMACK. Thank you, Mr. Chairman. Thank you, Mr. Secretary for being here, and I associate myself with all of the remarks that have come from my colleagues in a gratefulness for the outcome there with your son.

I want to pivot for a moment to AIP funding because last year I asked about this particular subject and about the percentage that goes to the smaller airports. This year, I was initially pleased to see in the budget that more AIP grant money is going to smaller airports while allowing the medium and larger hub airports to make up their funding shortfall through increased passenger facility charges. I suppose that would work with one exception, and that is the PFCs are capped.

So why did you propose PFCs as a solution to the funding gap when current law does not allow for that kind of an increase? Is that a Mr. Bertram question?

Secretary LAHOOD. Yes, if you do not mind?

Mr. BERTRAM. Our request would only cut the overall funding for the large and medium airports if, in fact, there is a legislative change that changes the PFC from $4.50 to $7.

Mr. WOMACK. All right. Do you support the current funding level for AIP as $3.35 billion? I know right now, as I understand it, the request is for a billion less than current funding and the secretary has said many, many times in this hearing that this is the plan. This is the plan that you support. So I am coming back and asking if you would support the current level of funding for AIP at $3.35 billion or thereabouts?

Mr. BERTRAM. If there was not a change in the PFC, we would support the current levels of funding for AIP. Our level of $2.4 billion is predicated on an increase in the PFCs that would allow the large and medium airports to raise the funds locally.

Mr. WOMACK. One other question about that same subject matter. So we reduce the level of funding in the request, and AIP takes a pretty significant hit. While at the same time as I understand the budget, not so much of a hit if a hit at all to something like a high speed rail.

So what is the motivation between reducing there—I guess it goes back to the secretary's position that it is the budget that they have asked for, and it reflects the priorities of the administration. Is that indeed the priority?

Mr. BERTRAM. Right. I think the general theory behind that is that large and medium airports are not that dependant on AIP grants. They have fairly large capital programs. AIP grants do not make a big impact on that. They would prefer to have the ability to actually raise the funds they need locally. So that is what the——

CONTRACT TOWERS

Mr. WOMACK. Very good. I do not know how much time I have left. I have two minutes? Okay. Let me go to contract towers for just a minute. I think I can do this pretty quickly.

The administration's budget cuts funding for FAA contract towers by 15 percent. It is one of the FAA's most successful and cost effective air traffic safety programs. I have several towers in my district, and one in the town where I was mayor, that has a tremendous amount of corporate traffic in and out of that airport. Can you explain why the administration is recommending such a big reduction to a program so vital to air safety in some of these areas?

Mr. BERTRAM. I think our budget for contract towers goes down by about $2 million, and we can double-check to see where you got the $14 million. We support the contract tower program. It is a cost-effective way of providing air traffic services at smaller airports.

The new reauthorization bill requires us to go through and do a new cost-benefit analysis to determine if they stay in the program and to what degree there needs to be a local contribution. But, in general, we support the contract tower program.

[The information follows:]

The total FY 2013 request in the FAA Operations budget for the Federal Contract Tower program is $138 million. This consists of:

- $130 million in the Contract Tower Base Program
- $8 million in the Contract Tower Cost Share Program

This is a decrease of $2 million from the FY 2012 enacted level of $140 million. The decrease reflects:

- The budget's proposed adjustment to the Cost Share program (increasing the local cost share cap from 20 to 50 percent), and

FAA's use of newly available, site-specific cost information to update benefit-cost ratios used to determine local share.

The table below shows total funding levels for the program.

	FY 2011 Actual	FY 2012 Enacted	FY 2013 Request
Contract Tower—Base Program	122.6	130.0	130.0
Contract Tower—Cost Share Program	10.0	10.0	8.0
Contract Tower—Total	132.6	140.0	138.0

There are currently 246 towers in the FAA's Federal Contract Tower program. Sixteen of these are in the cost share program, where the local sponsor pays a portion of the operating cost of the tower based on the benefit/cost ratio (i.e., if the benefit/cost ratio is 0.85, the local share is 15 percent). The remaining 230 towers are in the base program and have all operating costs paid for by the FAA.

Mr. WOMACK. Have you done any analysis? Had any dialogue with these contract tower programs to see the reality that if indeed funding is cut to certain levels, that some of these municipalities as an example may just simply close the tower for want of funding? And I do not think that is a direction that the——

Secretary LAHOOD. Well, look, before we would do that, obviously we would sit down with the communities and talk to them about the contract and talk to them about the amount of money and make sure that they can continue to provide a service there at some kind of a funding level that makes sense from our point of view and from their point of view. We are not going to arbitrarily

go into communities and eliminate this service without sitting down and talking to these folks.

Mr. WOMACK. I encourage that dialogue. Thank you, Mr. Secretary.

Secretary LAHOOD. Thank you.

Mr. WOMACK. I yield back.

Mr. LATHAM. Gentlemen, I would recognize the gentlewoman from Ohio, Ms. Kaptur.

SAINT LAWRENCE SEAWAY

Ms. KAPTUR. Thank you very much. Welcome, Mr. Secretary. Sorry I could not be here a few moments ago. I was at a competing hearing. I wanted to thank you for your great work and I just have a few issues I would like to ask about.

First of all, I noticed the Saint Lawrence Seaway Development Corporation is not mentioned in your testimony. Have I not found it or is it not a priority for the administration?

Secretary LAHOOD. It is doing so well, Ms. Kaptur, that we did not have a thing to say about it. We just leave it lie because everything is fine. If we raise it as an issue then somebody around here might get an idea about doing something. Everything is fine at the Saint Lawrence Seaway.

TRANSIT

Ms. KAPTUR. I wanted to ask you, on transit I was very pleased to see some reference to that in your testimony. And just to express the view of the part of the country we come from, transit is absolutely critical. We cannot get people to work from areas where there is high unemployment, and we certainly need some sort of a close attention by the department to places of high unemployment and the condition of their transit systems and to get people to jobs that are in the region.

I might encourage you, you know, just ask your staff to take a look in the 10 poorest places in America and look at what kind of bus systems or transit systems that are there to move people regionally. You might be interested in what you find.

Secretary LAHOOD. Yes. Look, transit is a very high priority, and particularly as gas prices go up, there are some people in this country can little afford to put a gallon of gasoline in their car, but they can ride a bus or light rail or other forms of transit. Transit is a high priority. The reason I spoke out so strongly against the bill that came out of the House T&I Committee is what it did to transit. Transit is one of the most important transportation options that we have in America today. It simply is.

CLEVELAND INNER-BELT

Ms. KAPTUR. Thank you. Did Mr. LaTourette in his question period get into the inner-belt in Cleveland or not?

Secretary LAHOOD. No, he was actually lecturing me on the fact that we have not paid for the bill the right way.

Mr. LATOURETTE. I was pretending I was older for the moment.

Ms. KAPTUR. Oh, all right. All right. I just wanted to—you know, you have got a little problem there in Ohio with a massive trans-

portation project over in Cleveland from which they do not have enough money. And the administration will be in receipt of information and an request for TIGER attention to that project. But it is plugging up traffic in that major city and is a real priority, obviously for the region and that community again stretched in terms of jobs and income at the present time and needing to get that infrastructure in place so they can build their economy forward.

DISCRETIONARY SPENDING

Finally, Mr. Secretary, I wanted to ask a question regarding the budget, and I think someone took my piece of paper here. Here we go. Thanks, David. The Budget Control Act last year set discretionary spending for 2013 at $1.047 trillion, $4 billion above 2012, this year. It appears there is some news out of the House Budget Committee.

There are some members that would like to reduce discretionary spending down to $930 billion or $950 billion. Funding at those levels would mean that your Department of Transportation would have to absorb cuts as high at 22 percent. Can you please talk about what that would mean to overall state of our infrastructure, our ability to compete in the global market place, put our people back to work if we had to sustain cuts of that level?

Secretary LAHOOD. Well, for the record, I can get you some specifics, but the Chairman has been talking earlier about mandatory versus discretionary, and I certainly understand his point very well. And so we will see what the Budget Committee does and respond accordingly. But I will be happy to provide for the record what impact it would have.

[The information follows:]

A reduction of 22 percent in discretionary spending totals would adversely impact infrastructure development and transportation operations funded by the Department. In particular, a cut of this magnitude would significantly affect modernization and operations of the Federal Aviation Administration (FAA), the New Starts program at the Federal Transit Administration (FTA), and Amtrak's operating and capital investments. For instance, the FAA might need to curtail late night air traffic control services at low-level-use towers, which would disproportionately affect rural communities. They might also need to close towers and consolidate air traffic control services. In addition, progress on the Next Generation air traffic control system would come to a halt. The FTA would postpone new Full Funding Grant Agreements (FFGAs) to finance and support locally planned, implemented, and operated transit capital investments. In addition, the FTA might have to reduce payments to existing FFGAs. This change in funding could stall local transit projects, delay the delivery of greatly needed transit services, and eliminate construction jobs. Under this funding scenario, Amtrak might have to halt large-scale capital projects and reduce operating service for subsidized lines, which would affect rural areas served by long distance trains. Overall, a reduction in discretionary spending of 22 percent would have a significant impact on transportation operations and capital investments; however, the Department would continue to prioritize safety activities to ensure any cut does not compromise our commitment to safety.

Ms. KAPTUR. Thank you. Thank you very much, Mr. Secretary. Thank you, Mr. Chairman.

Mr. LATHAM. Thank the gentlewoman. The gentleman from Virginia, Mr. Wolf.

WMATA SILVER LINE

Mr. WOLF. Thank you, Mr. Chairman. I appreciate it. And Mr. Secretary, I want to welcome you. I wanted to thank you, but be-

fore I did I want to tell you, I was in Egypt last year in June, and I met with your son. And the job they were doing out there was an incredibly, incredibly important job, and I know you are very proud of him. But they were really making a difference, and I hope that effort will be able to continue. But I want to let you know——

Secretary LAHOOD. Thank you.

Mr. WOLF [continuing]. In a very tough environment he was doing a tremendous job.

Secretary LAHOOD. Thank you.

Mr. WOLF. Secondly, I want to thank you for your help on reaching out and bringing this whole issue with regard to rail to Dulles. You basically have saved the project, and I personally want to thank you very, very much. I also want to ask you to thank your IG. Mr. Latham and I, on March 7th, sent a letter to Calvin Scovel asking that they do an in-depth investigation of this rail to Dulles to make sure there is transparency.

Personally, I think the MWOL Board is dysfunctional. I think it has kind of gone astray. And that is why this committee, and I appreciate, Mr. Latham, writing two new people on from the state of Virginia. We are having—when the terms end, they end. But if you would, thank your IG for the work that they are doing. They are going to be coming out with an in-depth analysis investigation both of contracts, government's transparency. Most of the board meetings are in secret; they ought to be public. So if you would thank him, I would appreciate it.

Secretary LAHOOD. Of course.

INSPECTOR GENERAL FOR MWAA

Mr. WOLF. The last question I would want to ask you is, this Congress, I think, under the leadership of Congressman Davis and others, put together an IG for the Metro system. And I am thinking of—I want to ask your opinion of passing and asking this committee, if we would, to have an IG, inspector general, for the Airport Authority so that once your people give their report, which will print sometime in May, June, July of this year, then there would be a clean slate and we would then have an IG on the Airport Authority who could make sure that this thing was run appropriately.

So the Congress I think, maybe when you were here did an IG for Metro. What are your thoughts on having an IG?

Secretary LAHOOD. You know, I have never really thought about that, Mr. Wolf. But I would be happy to visit with you about it and figure out if it really makes sense. As you know, the Federal government does own the airports but I have never thought about it. Can I just say to you, Mr. Wolf, you know one of the reasons we got involved in the Dulles line was because of you and your support for this.

For the rest of the Committee, this is the connection for people in Washington to Dulles International Airport. And it is not just people that are flying in and out. It is for a lot of people who work there and a lot of people who work along the corridor. This is really the completion. This line could become a model for the country in terms of how it is funded, the number of people it will deliver. And so I want to thank you, Mr. Wolf, and members of your delegation

for really hanging in there and making sure that we get it right. It is a very important project. It completes the Metro system in this area.

Mr. WOLF. It does. Well, I thank you for your comments and I hope that there could be a LaHood station somewhere along the way.

Secretary LAHOOD. I think the Wolf station is probably more appropriate.

Mr. WOLF. I do not want anything named after me ever. I just—just on my tombstone. Anyway, thank you very, very much. Mr. Chairman, I yield back.

Mr. LATHAM. Thank you. I thank the gentleman. The gentleman from North Carolina, Mr. Price.

NEW STARTS

Mr. PRICE. All right. Well, thank you, Mr. Chairman. Welcome, Mr. Secretary. Glad to have you before the subcommittee again. I find a lot to like in your budget submission. I want to thank you for the emphasis on safety and various aspects, on aviation modernization, on high-speed rail development. There is a lot here that I hope we can respond to in a positive way.

Also, I want to quickly say thank you on behalf of our Department of Transportation in North Carolina for the approval of our I–95 proposal for the third and final slot in the Federal Highway Administration Interstate System Reconstruction and Rehabilitation Pilot Project. That is a very positive development for our state.

In my limited time here this morning, I want to turn to transit and to the process for awarding New Starts funding and supporting funding to communities undertaking transit development. As you know, we have a very strong interest in this in the Triangle area of North Carolina. We had some disappointments in earlier years, but we are now on board I believe.

Our area transit providers, advocates, the local governments do now have a collaborative transit expansion plan with the combination of bus and rail service. And on the fundraising piece, the local fundraising piece, Durham recently approved a half-cent sales tax dedicated to this expanded service. And we are hopeful that the other affected communities, Orange County, Wake County, hopefully, will follow suit.

We have now submitted a formal Notice of Intent to FTA for their okay to let us go forward with the scoping process. And we had FTA Administrator Rogoff in the Triangle recently to check out the whole situation. So we are hopeful.

I wonder if you could tell us from the Secretary's perspective what kind of efforts you have had underway and anticipate developing to streamline this process? I know we have all talked about that, streamlining the process of applying for transit and light rail funds, and to diversify the criteria that you are looking at. You know, there are many approved projects that really are not new starts but are simply extensions to older lines. That is a good thing, I am sure, for those communities because they have made this work and they want to make it work in an expanded area.

But we do need for emerging communities growing areas, like the one I represent, to be able to get started on building new infra-

structure. There are economic development considerations. There are maybe some particular qualities of these communities that would require some flexibility in terms of applying the usual models. So I wonder what kind of ideas you would have about how we can help growing areas like ours with truly new starts, what this process.

Secretary LAHOOD. Sure. It is a very important program that we have implemented. Our transit administrator, Mr. Rogoff, has put out an NPRM which is on our website and it really gives us an opportunity to show people, we are trying to really shorten the time that it takes. Almost from the very first day on the job here, I have had Members of Congress on both sides of the rotunda ask me why it takes 12 or 13 or 14 years to get a New Starts Project approved.

It is too long. We have short-circuited it. We still are going to have good criteria, but we need to move things along and we need to short-circuit and eliminate the duplicative things that take place, procedures that take place, and we intend to do that. If you look on our website, and I will be happy to provide it for the record, the way that Mr. Rogoff really—I think has figured out a way to make sure that we are doing it by the book, but that it does not take 12 years.

[The information follows:]

In June 2010, FTA began a new rulemaking process by publishing an Advanced Notice of Proposed Rulemaking (ANPRM) to update the New and Small Starts evaluation and rating process to better capture the wide range of benefits transit can provide, including specific questions on how to measure and evaluate cost effectiveness, economic development, and environmental benefits. FTA reviewed the comments received on the ANPRM and developed a Notice of Proposed Rulemaking (NPRM), which was published in late January 2012.

The NPRM seeks to balance the goals of measuring a wider range of transit project benefits and establishing measures that streamline the project development process. FTA aims to change the current system in which the measures used to determine the project justification or local financial commitment are so complex that they create an unnecessary burden for project sponsors or the agency. FTA wants a system and set of measures that are not difficult to understand, and which can instead foster effective public involvement. The simplified measures and streamlined process could save both the federal government and taxpayers millions of dollars annually by allowing approved projects to begin construction sooner, thereby creating savings in finance charges and other construction costs.

The key features of these changes include:

○ Use of a broad set of more objective measures, including environmental benefits and a project's impact on local economic development. FTA proposes to give these measures equal weight in project justification evaluations.

○ Establish measures that support streamlining of the New Starts and Small Starts project development process, including:

- Use of project ridership instead of user travel time savings as a streamlined measure of mobility;
- Streamlined analytical methods to develop the information needed by FTA for project evaluation and rating;
- Simplified and more clear-cut comparisons for incremental measures; and
- Revised local financial commitment criteria to address more clearly the strong interaction between capital and operating funding plans.

Through these changes, FTA proposes a more holistic evaluation of a project's potential benefits to a community while maintaining rigorous scrutiny of proposed major capital projects. It will allow FTA to reduce red tape and approve projects that are more reflective of a local vision rather than only those that fit a rigid, outdated set of criteria.

Mr. PRICE. Well, and then the question—I appreciate that and I think it is extremely important and very promising. There is also this question which I alluded to about what exactly by the book

means. And I have said all along, I would gladly trade a reduced Federal percentage, you know, a reduced Federal participation, for greater flexibility in looking at these proposals and working with these communities.

Secretary LAHOOD. Sure. Well, we are trying to find the flexibility and not really cutting short people's money to do it. We can have it both ways, really. We can eliminate some of these duplicative procedures and still get to the goal of proving these funds, but doing it in a shorter period of time.

Mr. PRICE. All right. Well, that is good news. And we look forward to working with you. Thank you, Mr. Chairman.

TRANSPORTATION PAY-FOR

Mr. LATHAM. Thank you, gentlemen. We will go to the second round. Again, we expect votes probably in a half-hour, so if we could expedite the process, that would be wonderful.

It is interesting with the offsets that you are using the OCO funds. If we remember, Mr. Obey, our former chairman of the full committee, and every time we would have a budget he would either want to raise taxes or borrow to pay for the war funding.

He said that money is not there. You either have to borrow it or raise taxes. Even Mr. Obey agreed that there was no money there to use for an offset for this program. So I just throw that out there. I do not know if you have any comment.

Secretary LAHOOD. Did you ever think you would be quoting Mr. Obey, Mr. Latham? I never dreamed you would.

Mr. LATHAM. Well, you know.

Secretary LAHOOD. But anyway, look, I know you all would like to have it both ways. I know that for two years, I have come here and you have criticized me and you have said where is the pay-for? And I have had no answer. This year I have an answer. It is paid for and it is scored by CBO and you still do not like it. Look at this as a no-win deal for me. I get it. Okay?

PIPELINE SAFETY INSPECTORS

Mr. LATHAM. God bless you, Ray. Okay. Let us change the subject then, shall we? Okay. You are keenly aware that it is not easy to enact new laws around here, but we did get the FAA and Pipeline Safety bills completed and signed by the President just a few months ago.

Your budget request proposes some program levels that are well above the authorized levels. Would you agree with me that the authorized levels are now the law and should govern the funding decisions or are you sticking with your proposal?

Secretary LAHOOD. The one thing I do not want to compromise on is when you pass the Pipeline Safety Bill, you increase the number of inspectors. That is very, very important. I visited San Bruno and I also visited Pennsylvania, both places that had explosions. When you go to those communities, what you find is that people are startled by the fact there is an explosion in their front yard. We need more inspectors. You all put that in the bill, and it is a good provision.

Mr. LATHAM. Right. But that was for 10 more inspectors. In your budget, you are talking about 100 more, which is well beyond the

authorized levels. So you are staying with your budget proposal apparently, even though this was just signed into law by the President. Now you are already going way beyond what the President signed.

Secretary LAHOOD. Yes, I know. Look, part of my job is to recommend to all of you what we need. We need more inspectors in pipeline safety. That has been a problem. No administration has paid the kind of attention we have paid to pipeline safety. And not one of you on this panel wants to have an explosion in your community and then have somebody say well, these have not been inspected for 100 years or whatever. That is what we are trying to do. This is about safety.

Mr. LATHAM. There are 12 unfilled positions—there are 13 unfilled positions right now for inspectors. Were you not aware of this when the bill was signed into law?

Secretary LAHOOD. Unaware of the fact there were 12 unfilled positions or 13 or whatever?

Mr. LATHAM. Well, 13, and now you say you need all these additional ones. I mean, the ink is not even dry on this and you are already——

Secretary LAHOOD. Well, look, I am not going to compromise on safety. If you want to, that is fine. We need more inspectors. And what we need to do is find people—this is a complicated inspection job. This is not like going out and looking at a fire hydrant or looking at your water heater to see if everything is okay. These pipelines are in the ground. They are over 100 years old. Many of them need to be replaced. You need to have the right people. So we are going to find the right people. We need to get the right number. We need to make sure that communities that have pipelines running through people's front yards are inspected so that we do not have these explosions. That is what this is about.

Mr. LATHAM. I could not agree with you more, but it is frustrating that we just signed a bill into law that limits what we can spend, and you are going way beyond that here. This is the President's proposal and it is a bill the President just signed.

Mr. Olver.

TRANSPORTATION PAY-FOR

Mr. OLVER. I have tried very hard not to get into a debate with the Secretary about anything today, but I have enjoyed very greatly the conversation today. I am very sorry. It has been rumored that you may go out the door with Norm Dicks and myself at the end of this year, and that would be a tragedy for the country because you have done such a wonderful job, I think, as secretary of transportation. I just want to start out by saying that.

Secretary LAHOOD. Thank you.

Mr. OLVER. Oh, my goodness. At least you come back, and we had gotten back into the OCO business again. The OCO at least has the feature that the one war, the war of choice in Iraq, we have wound down and are really getting to low levels. The other one, which was the one that stuck around for a long time was basically forgotten for a long time. That is going on far too long. But if we get down on that one, we will have some monies that are clearly available, and your administration has decided that that is where

they are going to put it. Our chairman here, I do not want to get into a debate with him either particularly, but here I am starting.

The pay-for is in the bill that was proposed and now is put aside. The papers for that were even more imaginary by far than the pay-for that you have put forward because we are winding down; those wars are ending.

PORTS

Now, I want to move on to just a short comment about the conversation with Mr. Carter. You made the assertion that this administration has put more money into port-related facilities than any. I do not know how far you wanted to go back, whether you meant going all the way back to 1790 or what. But in any case, I just want to give a little bit of statistics here. You have done about 15 or 16 projects out of the TIGER grants that come to at least $250 million that cover the landside part of the proper movement of freight that is necessary for an economy to function. The other side of it, the water side, comes out of a different subcommittee. It comes out of Corps of Engineers in the Energy & Water Committee, which we both happen to serve on also. And if I remember, if I understand it correctly, you have an MOU with the Corps of Engineers so that there will be cooperation, collaboration, and so forth on other of these flexible grants that come through TIGER grants. I am just supporting very strongly the TIGER Grant Program at the same time. But would you talk about that MOU?

Secretary LAHOOD. Well, look, one of the common complaints that we hear from our friends in the ports is that they need to be dredged in order to be effective. I visited the Savannah port in Savannah, Georgia. It needs to be dredged. I have obviously visited a lot of ports. I have been to a lot of ports around the country. Every one of them needs to be deeper in order to accommodate what is going to be happening at the Panama Canal with the expansion of the canal.

What some governors are suggesting to the administration is the use of the Harbor Maintenance Tax, at least part of it, because dredging is so expensive and there really is no money to do that. I think that is one thing that this working group that the President put together under the Chief of Staff certainly will be looking at. Dredging these ports now is very important in order to accommodate the big ships that are going to be coming through with the expansion of the Panama Canal.

Mr. OLVER. I think we really must articulate the land, the rail, and truck transportation systems with the water and port systems. I think that is very important.

Secretary LAHOOD. Right.

NEXTGEN

Mr. OLVER. Now, let me just quickly—your budget includes over $1 billion for the Federal Transportation's NextGen program. And that, of course, is the program to change our pretty ancient air traffic control system, a low technology system, from a ground-based system to a satellite-based system. And that is a multiyear—we already spent a fair amount of money on that. Can you give us some sense of what with the money spent has really been accom-

plished at this point? What are the best examples of the advances that we have made that really highlight what is achievable with the NextGen system?

Secretary LAHOOD. We have opened up some opportunities around the Gulf, around the Houston area, and the availability of helicopters to fly around that area. There are a couple of communities where we have begun to implement the models for NextGen, and I will be happy for the record to get that to you. We have made some progress, but now that you all have passed the FAA bill and it has been signed, we have the resources and we have the capability to really launch this and continue to make a lot progress over the next four years.

[The information follows:]

In a continuous rollout of improvements and upgrades, the FAA is building the capability to guide and track air traffic more precisely and efficiently to save fuel and reduce noise and pollution.

NextGen integrates new and existing technologies, creates policies and procedures to reduce delays, save fuel and lower aircraft exhaust emissions to deliver a more reliable travel experience.

- Examples of the considerable progress NextGen has already achieved include:
  - *Automatic Dependent Surveillance-Broadcast (ADS–B):* The FAA has rolled out over 339 radios providing ADS-B service, with a target of 500 by the end of FY 2012 and all 800 in place next year, providing satellite-based surveillance coverage of the East, West, and Gulf coasts and most of the area near the U.S. border with Canada.
  - *Performance Based Navigation Routes:* The FAA substantially increased the number of Performance Based Navigation (PBN) routes and procedures available. PBN provides direct routes, which save time, fuel, and reduce aircraft exhaust emissions.
  - *System-Wide Information Management (SWIM):* The program is providing weather information to our users in formats that can be easily used in their systems in an effort to improve our joint planning for bad weather. In addition, we are providing surface traffic information from all major airports where our Airport Surface Detection Equipment Model-X (ASDE–X) system is deployed. This is a surveillance system using radar and satellite technology that allows air traffic controllers to track surface movement of aircraft and vehicles to help reduce critical runway incursions.
  - *NextGen Tools for Controllers:* FAA is rolling out tools for air traffic controllers. New systems help air traffic controllers better track the spacing between aircraft lined up for final approach during periods of reduced visibility, as well as predict periods of potential congestion. These new systems help us optimize aircraft routing and better manage ground delays.

Mr. LATHAM. I am glad after the light went red you finally got to a question.

I understand the gentleman from Kentucky does not have any questions?

Mr. ROGERS. No, no further questions.

Mr. LATHAM. Okay. In order of appearance here, Mr. Carter.

TIGER GRANTS

Mr. CARTER. Thank you, Mr. Chairman. And I want to thank Mr. Olver for the clarification. I was a little confused. I was looking at the—I actually have a list of the TIGER grants that you mentioned. All three were rail projects: one in the Gulf Coast and two others on the West Coast and East Coast. But I am glad we all are on the same team.

Secretary LAHOOD. Sure.

Mr. CARTER. We have to fix those ports.

Secretary LAHOOD. Sure.

Mr. CARTER. And the question I asked last time were CFRs, after we got through asking our questions, we asked them in March, we got the answer in August.

Secretary LAHOOD. Sorry about that.

Mr. CARTER. A couple of things I want to ask you about. Fuel economy mandates.

Secretary LAHOOD. Yes.

FUEL ECONOMY MANDATE

Mr. CARTER. According to a recent study and an analysis of the government's fuel economy and mandate, this will average $3,000 a vehicle for every vehicle built anywhere in the world that is going to be sold in this country. This is going to prevent, according to this study, 6.8 million drivers from being able to qualify to buy an automobile. Therefore, they are not going to be on the roads. Therefore, they are not going to be paying the fuel tax. Therefore, we are losing revenue. Do you have any opinion about the rationale of preventing 6.8 million Americans by regulation—meanwhile the President just announced he is going to up the government tax credit on the vote from $7,500 to $10,000, and on this Fisker Karma and Tesla Roadster, which means I might as well be speaking a foreign language. I do not know what that is, but it is going to raise it. We have a $7,500 tax credit on two cars that cost $95,000. Now, how does all that make sense as we are battling how we are going to pay for our transportation, and we are pushing people off paying the tax?

Secretary LAHOOD. Well, let me stipulate, first of all, that no administration, no President, has done more for the American automobile manufacturer than this President.

Mr. CARTER. Granted.

Secretary LAHOOD. Thank you. We will not have to have that debate then. Your figures are correct that there will be an increase in automobiles by 2025 with the increase to 54.5 miles per gallon, but it will be made up by the savings in the cost of gasoline for people that will be driving those automobiles. So the one figure is correct, but you need to make sure you understand that there will be a cost savings on the other end by the amount of fuel that people will not be using in these more fuel-efficient automobiles. That is part of the calculation.

Mr. CARTER. I understand it, but it is really kind of Catch-22 when we are getting our money from burning gasoline to pay for the highways, and we are building fuel-efficient cars pushing people out of the market, and then we are wondering why we do not have the funds for the highways. It is sort of a Catch-22, if you ever read that book.

Another question I have to ask you for the sake of my God-fearing farmers in Texas. The Department of Transportation recently set forth some comments about causing or wanting to require our Agriculture workers on the farm to have commercial drivers' licenses. I know you backed off of that, but it is still being pondered very heavily in the Agriculture community about what the rationale was for having tractor drivers on the farm have to have a commercial driver's license.

Secretary LAHOOD. Look it, Judge, when I was here, for 14 years my district was largely an agricultural district. When I heard about that, I put a stop to it. Nobody at DOT is talking about that anymore.

Mr. CARTER. That is what I want to go home and report. Thank you, Mr. Secretary.

Secretary LAHOOD. Thank you.

Mr. LATHAM. I thank the gentleman. The gentleman from North Carolina, Mr. Price.

HIGH SPEED RAIL AND TIGER FUNDING

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, let me return to the topic of high-speed rail. Your budget requests $1 billion to supplement the funding that was provided for high-speed rail in the Recovery Act and the fiscal 2010 appropriations bill. Unfortunately, as you know, the 2011 and 2012 bills did not include specific funding for high-speed rail. However, the TIGER grant program does permit some funding for that purpose.

So let me just ask you a group of interrelated questions. First, can you give us an update generally as to the projects that are underway with the previously appropriated dollars? Do you in particular expect the California project to move forward? Your recent TIGER NOFA indicated that as much as $100 million of the fiscal 2012 TIGER funding will be available for high-speed rail projects. Now, those preapplications are in I expect. I would like to know what level of interest you found in high-speed rail projects. And then finally, what more generally can you tell us about the ongoing interest of states and localities and further investments in high-speed rail?

Secretary LAHOOD. Well, first of all, let me say this. There is a pent-up demand in America for high-speed intercity rail. We have put out $10 billion, over $3 billion in California, over $2 billion in Illinois. We have put some money out in some of your states because of the leadership in your states. The people are way ahead of some members of Congress on this. The people want high-speed intercity rail.

We did put out the idea that we might use up to $100 million of our TIGER money for high-speed intercity rail, and the requests came in at $1 billion. So the country wants high-speed rail. That is not because Ray LaHood says it. That is because of what they just requested. Those requests just came in for the TIGER money.

We have great partners in governors all over the country, and the people want this because they are tired of being in congestion. They want a good form of transportation, and that is what high-speed intercity rail does. It is the next generation of transportation for the next generation. It is not for us. It is for our kids and grandkids. This is the President's vision, but it is also the country's vision.

And again, the people are way ahead of a lot of elected officials and politicians when it comes to high-speed rail.

Mr. PRICE. Well, I can certainly attest to that from a North Carolina standpoint. I wonder if you could give us anecdotally and then maybe provide more systematically for the record an answer to my

first query about the state of these projects across the country, projects that are underway with the previous——

Secretary LAHOOD. Just generally, there are no projects that are stalled. We have reached agreements with just about every freight railroad that we needed to, the states have, to be able to use freight rail. In California, they will begin construction soon. In Illinois, there are all kinds of rail work going on with the money we have given. We just gave Amtrak almost $1 billion to buy new cars, to fix up catenary. We are doing some great work in some of your states, but I will give you the specifics.

[The information follows:]

The table below shows the status of the High-Speed and Intercity Passenger Rail (HSIPR) grants as of March 19, 2012. FRA distributed over $10 billion from three sources (FY 2009 Recovery Act, FY 2009 Intercity Passenger Rail Grants, and FY 2010 HSIPR) to states and other entities for passenger rail projects in six regional corridors. Of the total, 95 percent has been obligated. The table shows the total funding profile for each corridor along with a summary of activities and funding amounts in progress.

Funding Source	Obligated Funding[1] ($M)	Unobligated Funding ($M)	Allocated Funding ($M)	% of Funding Obligated	Number of Obligated Projects[2]	Number of Unobligated Projects	% of Projects Obligated	Reimbursed Funding ($M)	% of Obligated Funding Reimbursed
ARRA	$ 7,731	$ 249	$ 7,980	97%	73	4	95%	$ 393	5%
FY09	$ 70	$ 20	$ 90	78%	22	4	85%	$ 2	2%
FY10	$ 1,800	$ 207	$ 2,007	90%	44	4	92%	$ 1	0%
Total	**$ 9,601**	**$ 476**	**$ 10,076**	**95%**	**138**	**12**	**92%**	**$ 396**	**4%**

[1] All funding figures reflect amounts available for grants. Figures may not sum to total due to rounding.

[2] One project has both ARRA and FY10 funding, but is not double counted in total; one FY10 project is partially obligated and counted as an "obligated project".

Nearly 85% of High-Speed Intercity Passenger Rail Program funding to-date is dedicated to six key corridors:[3]

Corridor	Service Type	Obligated Funding ($M)	Unobligated Funding ($M)	Allocated Funding ($M)	% of Funding Obligated	Reimbursed Funding ($M)	% of Obligated Funding Reimbursed
San Francisco-Los Angeles (High-Speed Rail Phase 1)	Core Express (125+ mph)	$ 3,897	$ -	$ 3,897	100%	$ 161	4%
PE/NEPA Underway : 1 project for $232 million - CA - Phase 1 HSR Program - PE/NEPA/CEQAs ($232M)							
Boston-New York City-Washington, D.C. (Northeast Corridor)	Core Express (125+ mph)	$ 954	$ -	$ 954	100%	$ 7	1%
Projects Scheduled to Start Construction (Next Six Months) : 1 project for $4 million - DC - Union Station Access Improvements ($4M): Final design and construction for the replacement of ten escalators at the Union Station parking garage. ***PE/NEPA Underway*** : 6 projects for $128 million - MA - Boston South Station Expansion Project ($33M) - MD - B&P Tunnel ($60M) - MD - Baltimore-Washington International Airport Station Improvements ($9M) - MD - NEC Bridge Replacement ($22M) - RI - Kingston Capacity and Track Improvements ($1M) - RI - NEC Providence Station Improvements ($3M)							
Seattle-Portland-Eugene	Regional (90-125 mph)	$ 810	$ 3	$ 813	99%	$ 4	0.5%
Projects Under Construction : 1 project for $7 million - OR - Pacific Northwest Corridor: Union Station Roof ($7M): Final design and construction of improvements to Union Station in Portland, OR. Roof repairs are substantially complete, and remaining construction elements are ongoing. ***Projects Scheduled to Start Construction (Next Six Months)*** : 1 project for $17 million - WA - King Street Station Rehabilitation ($17M): Completion of a second phase of upgrades to King Street Station, including expanded Amtrak passenger and office facilities. ***PE/NEPA Underway*** : 4 projects for $7 million - OR - Pacific Northwest Corridor: North Portland Jcts ($1M) - OR - Pacific Northwest Corridor: Willbridge ($1M) - OR - Union Station: Structural Improvements, Track Improvements ($4M) - OR - Eugene Station Stub Tracks ($2M) ***Planning Studies Underway*** : 1 project for $4 million - OR - Eugene-Portland Corridor Plan ($4M)							
Charlotte-Washington, D.C.	Regional (90-125 mph)	$ 593	$ 101	$ 695	85%	$ 25	4%
Projects Under Construction : 1 project for $520 million - NC - Piedmont Corridor ($520M): Preliminary engineering, environmental review, equipment procurement and rehabilitation, stations and facilities improvements, and construction to advance the development of two additional Raleigh-Charlotte frequencies for a total of four. Rehabilitation of the Cary Depot Station was completed in 2011, and work on the Capital Yards and High Point Station will complete in early 2012. ***PE/NEPA Underway:*** 2 projects for $47 million - DC - Long Bridge Preliminary Engineering-NEPA Study ($3M) - VA - Richmond-DC: PE/NEPA Completion ($44M)							

Corridor	Service Type	Obligated Funding ($M)	Unobligated Funding ($M)	Allocated Funding ($M)	% of Funding Obligated	Reimbursed Funding ($M)	% of Obligated Funding Reimbursed
Chicago-St. Louis	Regional (90-125 mph)	$ 1,343	$ -	$ 1,343	100%	$ 94	7%
Projects Under Construction : 1 project $1,329 million - IL - Chicago-St. Louis HSR ($1,329M): Improvements to track, signal, station and rolling stock to enable three of five current daily round-trips to operate at 110 mph between Alton (near St. Louis) and Dwight (near Chicago). 187 miles of new track and nearly half a million concrete ties have been installed on the corridor segment between Alton and Dwight. Major construction will resume in April on corridor segments south of Alton and between Dwight and Joliet. ***Planning Studies Underway*** : 1 project for $1 million - IL - Chicago to St. Louis Double Track NEPA ($1M)							
Chicago-Detroit	Regional (90-125 mph)	$ 519	$ 79	$ 598	87%	$ 1	0.1%
Projects Under Construction : 2 projects for $130 million - IL - Englewood Flyover ($126M): Construction of a flyover, approach bridges, embankment, and retaining walls to support three new grade separated tracks to carry Metra operations over the four Norfolk Southern tracks. Installation of a new switch and utility relocation has been completed. Flyover construction is slated to begin in April 2012. - MI - Chicago to Detroit Corridor: Battle Creek, MI Station ($4M): Renovation of the station building and passenger services facilities at the Battle Creek, MI Amtrak Station. Construction is underway on all project elements ***Projects Scheduled to Start Construction (Next Six Months)*** : 2 projects for $375 million - MI - Kalamazoo-Dearborn Corridor Development ($347M): This project will rehabilitate track and signal systems that will allow trains to travel at 110 mph for 235 miles, or 77% of the full corridor from Chicago to Detroit, resulting in a 30 minute reduction in trip time. - Chicago to Detroit Corridor: Dearborn, MI Station ($28M): Construction of a new station building, platform, and passenger services facilities at a relocated new Amtrak Station in Dearborn, MI. ***PE/NEPA Underway*** : 1 project for $3 million - MI - Ann Arbor Station Project ($3M) ***Planning Studies Underway*** : 1 project for $3 million - MI - Chicago-Detroit HSR Corridor Plan ($3M)							
Midwest Equipment Pool[4]	Multiple	$ 268	$ -	$ 268	100%	$ -	0%

[3] "Projects Under Construction" funding includes grant total, not exclusively construction activity funding. Figures may not sum to total due to rounding.

[4] This equipment purchase provides significant benefits to the Chicago-St. Louis and Chicago-Detroit corridors.

The additional 15% of High-Speed Intercity Passenger Rail Program funding to-date is dedicated to the following corridors:

Corridor	Service Type	Obligated Funding ($M)	Unobligated Funding ($M)	Total Allocated Funding ($M)	% of Funding Obligated	Reimbursed Funding ($M)	% of Obligated Funding Reimbursed
Boston-Portland-Brunswick	Emerging (up to 90 mph)	$ 60	$ -	$ 60	100%	$ 25	42%
Existing California Corridors[5]	Regional (90-125 mph)	$ 336	$ 4	$ 340	99%	$ -	0%
Chicago-Iowa City-Omaha	Emerging (up to 90 mph)	$ 178	$ 53	$ 231	77%	$ -	0%
St. Louis-Kansas City	Emerging (up to 90 mph)	$ 36	$ -	$ 36	100%	$ -	0%
New Haven-Springfield-St. Albans	Regional and Emerging	$ 196	$ 121	$ 316	62%	$ 43	22%
New York-Albany-Buffalo	Regional (90-125 mph)	$ 166	$ 77	$ 243	68%	$ 3	2%
Philadelphia-Harrisburg-Pittsburgh	Regional (90-125 mph)	$ 66	$ -	$ 66	100%	$ -	0%
Other Projects[6]	Multiple	$ 178	$ 15	$ 193	92%	$ 34	19%

[5] Pacific Surliner, Capitol Corridor, San Joaquin, and California portions of Amtrak long distance routes.

[6] Other planning projects, projects on other corridors, and projects on Amtrak long distance routes.

Secretary LAHOOD. The $10 billion is starting to be spent. This not only creates jobs, it creates the next generation of transportation for America. It is what this generation will do for the next generation when it comes to transportation.

Mr. PRICE. And as you say, the pent-up demand is there. When you say $1 billion in applications through TIGER——

Secretary LAHOOD. Correct, for $100 million.

Mr. PRICE. That is $1 billion for high-speed.

Secretary LAHOOD. Just for high-speed intercity rail.

Mr. PRICE. All right, that is my question. That is just for the high-speed rail component of those applications.

Secretary LAHOOD. That is correct.

Mr. PRICE. All right, very convincing.

Secretary LAHOOD. And when Florida decided to turn their money back, $2.5 billion, we had $10 billion worth of requests.

Mr. PRICE. All right, thank you. Thank you, Mr. Chairman.

Mr. LATHAM. Thank you, gentlemen. Mr. LaTourette.

TRANSPORTATION PAY-FOR

Mr. LATOURETTE. Thank you, Mr. Chairman. Mr. Secretary, I want to be real clear in case you did not get my observation about your pay-for before. I will tell you that it is fake, it is phony, and it is disappointing. And even if it was not fake and phony, it still relies upon a general fund transfer to pay for something that has always been funded with user fees. It is the exact same problem we have with the Mica bill: It increases pension contributions on Federal employees to create $40 billion to plug a hole. Even if the money that you are suggesting is real, it is a general fund transfer to plug a hole rather than fixing the problem.

And when Judge Carter talks about the fuel efficiency standards—my good friend, Jeff Davis, who writes this transportation weekly and who knows a lot more about this than I do—the gas tax when President Clinton initiated the increase in the gas tax in 1993, the purchasing power was when every mile you drove on the highway, that gas tax translated into about seven-tenths. You were paying about seven-tenths of a penny to drive. Now because of alternative energy things—electric cars, all these cars—that moving away from purchasing gas tax, the ethanol subsidy, it is down to about half of a cent. With the new fuel efficiency standards that the administration has proposed, it will be down to .25 cents. There is no way that the math works unless you pivot to vehicle miles traveled or unless you raise the gas tax or unless you come up with some other solution. Your pay-for, even if real, which it is not, does not solve the Nation's long-term problem.

And I said some things about the Mica bill, and I want to be clear. I understand where that came from. Where it came from was Secretary Peters' argument that you have all these diversions from the trust fund and people are not contributing to it, so you need to take it out. I could not disagree more with that.

I happen to be a transportation enhancement proponent. I happen to think transit is good. And the short-sightedness of the current bill on transit was that people said, well, transit does not participate in the trust fund. They do not pay any money in, so let us just take them out. And after five years they can jump off a cliff

and good luck to them, and I hope you can still have buses and trains in this country.

But that failed to recognize that if my transit authority gets $5 million as a result of that 2.86 cents, it is not just $5 million. They are able to take that guarantee of 2.86 cents to Wall Street or to the bank and leverage it 10, 15 times. That is what funds transit in this country. We have to fix the problem.

And with all due respect to you because I am so fond of you, your pay-for does not fix the problem. And if the President is reelected or if there is another President who happens to be elected in November, somebody really has to have the courage to either fix this or—and I never thought I would be a fan of this. We have some voices in our conference that want to just devolve all this back to the states. If we are not going to be serious, and if we are not going to have a trust fund that is funded with user fees in a way that is sufficient to take care of our needs so we do not have the D bridges and the F highways, we should just send it all back to the states and let them do what they have to do. But for us to sort of limp along and perform in this shameless way with 10-year pay-fors, general fund transfers, rather than facing up to the issue, I really think it is sad, Ray.

And I have to tell you, the blame does not lie with your administration solely. It lies with the Republicans and the Democrats and the House and the Senate and previous Presidents. But for you to come here today and say that, okay, we beat you up for two years and now you have this great pay-for, it does not pass the straight-face test and I am sorry we are having this discussion.

Mr. LATHAM. Gentleman, yield back?

Mr. LATOURETTE. I am about done with that I think.

Mr. LATHAM. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Nothing at this time.

Mr. LATHAM. Mr. Womack.

TRANSPORTATION PAY-FOR

Mr. WOMACK. I am not going to go into a monologue about how I feel because I associate myself with some of the remarks that were up here, maybe not all of them. I, too, believe that OCO is a gimmick. It is borrowed money, and I have problems with using that as a pay-for.

But I just wanted to ask you, Mr. Secretary, that given what Mr. LaTourette has said and others—the distinguished judge here from Texas—with these fuel-efficient standards and electrification and who knows what is next, how do we fund transportation infrastructure in the future?

Secretary LAHOOD. Well, we have made a proposal. Obviously, some of you do not think it is real, but it is real. It has been scored by CBO. Some people like when CBO scores things and some people disagree with it. Look, you cannot have it both ways here. I know people here like to have it both ways because I have been in those chairs. I loved having it both ways. For two years you said where is the pay-for. Guess what? We provided one. If you do not like it, figure something else out. You will all work your will. You always do.

But we have put together as good a budget as has been seen around here for a long time, $500 billion. And what it does, it addresses the values, the transportation values of the American people—airports, rail, roads, bridges—and it puts a lot of Americans to work. It is a good budget and it is paid for. If you do not like the pay-for, have at it.

ARKANSAS TRANSPORTATION

Mr. WOMACK. Let me just finish by thanking you. I think it was last July, you came down to Northwest Arkansas and spent some time on the I–49 project in the Greater Northwest Arkansas Area, and I want to thank you for taking time out of a schedule to come down there and see. And I hope that by that visit you were able to see that—and I have to brag on our state because our state is investing a lot of its own resources into leveraging the Federal dollars that we get to address some of the major transportation concerns.

Later this year our state will vote on a tax increase to support infrastructure in our state. Without offering an opinion as to whether that is a good idea or a bad idea, the fact is the state has recognized that our ability to develop infrastructure in the future and economic development programs relies on our having skin in the game. And so I commend our state for at least having that desire.

Secretary LAHOOD. I agree with that. You have great leadership. I just saw your governor at the meeting that they had here. He and I spoke about that project and a few other things. Your two senators have talked to me often about transportation. You have a lot of good leadership in your state, including yourself, sir, and we look forward to working with you.

Mr. WOMACK. Thank you very much for your time today. I yield back.

CLOSING STATEMENTS

Mr. LATHAM. The gentleman from Massachusetts. We are not going to have another whole round here. We will try to conclude the hearing, but if the gentleman would like 30 seconds.

Mr. OLVER. I will need much less than that. I just wanted to thank you.

Mr. LATHAM. Thank you. Are there any other questions right now? If not, thank you very much, Mr. Secretary, and look forward to working with you.

Secretary LAHOOD. Thank you. Yes, sir. Thanks a lot, appreciate it.

Mr. LATHAM. Meeting is adjourned.

Questions for the Record

FY 2013 DOT Budget Request

Secretary LaHood Testifying

March 8, 2012

As of July 16, 2012, owing to personnel changes in fiscal year 2012, the Department of Transportation (DOT) has not yet responded to the Committee's Questions for the Record regarding the 3/8/2012 hearing with Secretary LaHood. However, DOT has advised the Committee that these will be shortly forthcoming. The Committee anticipates these responses within the next month, and looks forward to the guidance the Department can provide as it continues its work for fiscal year 2013 appropriations.

WEDNESDAY, MARCH 21, 2012.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WITNESS

HON. SHAUN DONOVAN, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. LATHAM. The subcommittee will come to order. Today we welcome the Secretary of the Department of Housing and Urban Development, Shaun Donovan, to the THUD subcommittee to testify on behalf of HUD's fiscal year 2013 budget request. We look forward to your testimony, Mr. Secretary. Due to a shortened hearing schedule, today is the only opportunity to question the secretary. We will hear from HUD's inspector general and the GAO later this month regarding HUD management issues.

The department is requesting authority to spend almost $45 billion in fiscal year 2013. On its face the budget looks like a current services budget, but as with most things, the devil is in the details. For example, you state that we should use FHA receipts in determining your net spending level. Everyone knows this would artificially increase spending and create huge cliffs when these receipts go down. I am concerned that we are at a tipping point with the amount of renewals overtaking the rest of the department's budget. For every 1 dollar you increase for public housing, you have to cut $5 from other HUD programs. I am interested in seeing how you plan to implement the reduction in funding for the Project-Based Rental Assistance Program. Your confidence in implementing this change will influence our decisions going forward so I expect to hear a little more about this in your testimony and upcoming questions.

Another concern I have is the administration's actions related to the Federal Housing Administration and FHA loans. It seems like you are raising premiums in order to backfill reserves and increase budget authority without increasing the private market share. CBO's March reestimate of the President's budget estimated that the administration's recent 75 basis point increase will cost FHA borrowers more than a billion dollars in mortgage premiums. However, CBO and OMB assume that the administration's recent policies do not do anything to drive more people into the private market.

So the only reason I could think of for the increase is to replenish your reserve fund and to use these receipts to pay for increased government spending. I think we would all agree that this is not the best way to budget.

Mr. Secretary, as I stated last year, I thank you for your service at HUD and thank you for your commitment to address the ongoing problems we face. However, it is disappointing to learn that

there were six reported anti-deficiency violations last fall where your department spent more money than it had. This is not just bad management but is a violation of the law. So I hope this has been fixed and duly investigated.

To end on a good note, I want to congratulate you and your staff for submitting much improved congressional justifications. It has taken a while, starting with Mr. Olver's direction, but the justifications submitted are substantially better and I look forward to your continued improvement in this area.

Again, welcome, Mr. Secretary. It is great to have you back. Before I recognize you, I will ask the ranking member, Mr. Olver, for his statement.

Mr. OLVER. Thank you, Mr. Chairman. Mr. Secretary, it is a pleasure to have you back before us today, the last time that you will be before me at least.

While the recession technically ended almost three years ago, hundreds of thousands of families continue to struggle with the burden of underwater mortgages in the face of institutional intransigence. As the Secretary of the Department of Housing and Urban Development, you have embraced the challenges and have personally accepted the responsibility of helping families facing foreclosure, providing housing security to families experiencing economic insecurity and in making capital investments in housing infrastructure to create jobs. This is an incredibly difficult undertaking and I greatly admire your dogged persistence over these years.

I am particularly pleased to see that your fiscal year 2013 budget request continues to embrace the VASH homeless veterans program by providing $75 million for an additional 10,000 vouchers. This funding is needed as veterans are over 50 percent more likely than the average American to become homeless and already over 11,000 veterans of Iraq and Afghanistan have found themselves on the streets. More generally, the budget also requests $2.2 billion for the Homeless Assistance Grants Program in order to address the broader homeless population. The administration has made reducing homelessness a priority and this robust request reinforces that commitment.

In addition, I am pleased to see that the fiscal year 2013 continues HUD's commitment to the Sustainable Communities Initiative. Through this initiative HUD has been a leader in promoting interagency cooperation and breaking down the stovepipes that stifle innovative planning. Like you, I strongly believe that federal dollars are most efficiently utilized when local communities have the resources and flexibility to determine what the right investment mix of housing, transportation and infrastructure is for their community in order to foster job growth. I also look forward to hearing more about your proposal to combine the public housing capital and operating funds and how it will strengthen PHAs by modernizing asset management practices and improving their ability to maintain, operate and expand housing services efficiently.

While there are many aspects of your budget request that I appreciate, I must express concern about your proposal to fund two-thirds of the project-based Section 8 contracts for less than a full year. We experienced this with the previous administration and I

am interested in better understanding what lessons you learned from the previous administration's mistakes and how you plan to ensure that tenants are held harmless by the proposal.

Lastly, in past years I have expressed concerns about the wide discrepancy between HUD's and CBO's FHA receipts projections and the constraints it puts on this subcommittee. I am pleased to see that this year's CBO estimates were $1.7 billion higher than HUD's and it should strengthen our ability to provide robust resources for HUD's programs.

Mr. Secretary, in conclusion while I wish the current fiscal environment would allow you to request higher capital funding levels, I do believe the request allows HUD to contribute to our economic recovery. I greatly appreciate your leadership over the past three years and I am committed to working with you toward our shared goal of strengthening HUD's ability to provide affordable housing.

Mr. Chairman, I yield back.

Mr. LATHAM. Thank you, Mr. Olver. I want to recognize also that this is the last hearing you will have with the Secretary, and thank you.

Mr. OLVER. I should not have mentioned that, should I?

Mr. LATHAM. You could change your mind. A great partner there. After the Secretary's testimony we will have rounds of 5 minutes on the clock. With that, we would invite you to make your opening statement. Your full written statement is included in the record. So, you are recognized for 5 minutes.

SECRETARY DONOVAN'S OPENING REMARKS

Secretary DONOVAN. Thank you, Chairman Latham and Ranking Member Olver, for this opportunity to testify today. I do want to thank you, Chairman, for the cooperative way our teams have worked together and appreciate you recognizing the improvements that we have had in submitting our budget this past year. I do want to thank the ranking member for his service and appreciate the way that we have worked together so well. You will be missed very much in this body, so thank you.

HOUSING AND COMMUNITIES

Today I would like to discuss how HUD's fiscal year 2013 budget proposal is essential to creating housing and communities built to last and will support 700,000 jobs. Mr. Chairman, in developing this proposed budget, we followed four principles. The first is to continue our support for the housing market while bringing private capital back. The critical support FHA provided the last 3 years has helped nearly 2.8 million families buy a home and more than 1.7 million homeowners refinance into stable, affordable products with average monthly savings of more than $125. At the same time, we have taken the most significant steps in FHA history to reduce the risk to taxpayers and reform FHA's mortgage insurance premium structure. With premium increases of 10 basis points recently enacted by Congress coupled with additional premium increases on jumbo loans reflected in the budget, FHA projects to add an additional $8.1 billion in receipts to the capital reserve account in 2013. And 2 weeks ago we announced a series of premium

changes that will increase receipts to FHA above those already in the budget by 1.48 billion in fiscal years 2012 and 2013. We have also taken steps to increase accountability for FHA lenders and continue to seek expanded authority via legislation that will further enable us to protect the fund, as will the recent settlement with some of America's largest banks through which FHA will receive approximately $900 million to compensate for losses associated with loans originated or serviced in violation of FHA requirements.

With FHA's market share declining since 2009, these reforms will further help private capital return while ensuring that FHA remains a vital source of financing for underserved borrowers and communities.

Overall, HUD's budget request is $44.8 billion in gross budget authority. This program funding level was offset by $9.4 billion in projected FHA and Ginnie Mae receipts at the time the budget was submitted leaving net budget authority of $35.4 billion or 7.3 percent below the fiscal year 2012 enacted level of $38.2 billion. However, because of premium increases I just mentioned, the administration now projects that the cost to the taxpayer of this budget is offset by an additional $894 million, more than meeting our deficit reduction targets while still allowing us to improve oversight of our core programs. As you know, the Congressional Budget Office has just provided the committee with its own scoring of receipts which is a total of 1.77 billion higher than the President's submission.

IMPROVING HUD'S HOUSING PROGRAMS

The second principle we used to develop our budget was to protect current residents and improve programs that serve them. The 5.4 million families who live in HUD assisted housing earn $10,200 per year on average and more than half are elderly or disabled. That is why 83 percent of our proposed budget keeps these residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

As you know, inflation and stagnant incomes put real pressure on the cost of these programs each year. This year we redoubled our efforts to minimize and even reverse these increases not just for this year but in the years to come. For instance, we are working to enact Section 8 reform legislation that would save $1 billion over the next 5 years while also supporting the ability of PHAs in small towns and rural areas to better serve the working poor. The budget also achieves savings in the Project-Based Rental Assistance Program by improving oversight of market rent studies, capping certain annual subsidy increases and offsetting excess reserves.

I would note that should Congress fail to come to an agreement within the framework of the Budget Control Act the sequestration that would result, by design bad policy, could well mean that some of the families now receiving HUD rental assistance would be put out on the street and undo virtually all of the progress we have made toward ending homelessness. Further, struggling homeowners across the country would not get the housing counseling needed to help them stay in their homes and communities of all

sizes would lose funds they count on to build infrastructure and create jobs.

Already, protecting current families required us to make choices we would not have made in a different environment. Requesting $8.7 billion for the PBRA program allows us to serve the same number of families, but it required us to provide less than 12 months of funding for the majority of our contracts. In addition, even though the budget maintains hardship exemptions, the budget raises minimum rents throughout our core rental assistance programs to a uniform $75 per month. These difficult decisions are the kinds of sacrifices this budget environment has already forced us to make and I would urge Congress to pass the kind of balance deficit reduction the President has proposed to avoid putting an even greater share of this burden on our poorest families.

Indeed, the need to stretch federal dollars further even further reminds us why our third principle, continuing investments that leverage private dollars and create jobs, is so important. Through our Choice Neighborhoods Program we are helping communities engage a broad range of public and private partners to transform our poorest neighborhoods and ensure our children are prepared for the 21st century economy. As the President said, if we are going to compete with China and India, we cannot leave anyone on the sidelines. Likewise, our Sustainable Communities Grants challenge communities to creatively use existing resources that help them insource and bring jobs back to our shores. Memphis is using HUD's Community Challenge Grant to more effectively invest federal and state resources in neighborhoods surrounding its international airport. FedEx has already created over 300,000 new jobs, and companies like Electrolux and Nucor Steel are poised to create another 1,500. And by ensuring grantees can collaborate not only across sectors and jurisdictions, but state lines to align their housing, transportation and economic development strategies, this growth benefits not only Tennessee but its neighbors in Arkansas and Mississippi.

Interstate planning is particularly critical to smaller places. Nebraska and Iowa, Idaho and Wyoming and the Pine Ridge Indian Reservation are but a few examples of rural and tribal economies using regional planning grants which I would note flow not through their states but directly to them. And at a time when the fiscal environment has required us to make tough choices about CDBG, dollar for dollar the most effective job creators in our budget, these grants are essential because they leverage the limited resources of core programs even smarter and more efficiently.

REDUCING REGULATORY BARRIERS

Indeed, reducing regulatory burdens and increasing efficiency is the fourth principle we used to formulate this budget. For example, the budget provides flexibilities to PHAs to better manage in this fiscal environment, and to hold our partners accountable for the funding they receive it also continues our Transformation Initiative. With your help, we are both continuing the next generation management system that will improve monitoring and oversight of our largest rental assistance programs and launching a cross-cutting technical assistance initiative targeted to PHAs so that

they have the capacity to manage their budgets. TI research will also allow us to propose increased investments in programs we know work like permanent supportive housing and rapid rehousing, end homelessness and save money. That is why even in this difficult fiscal environment we propose additional funding for homeless assistance grants and the HUD VASH program for homeless veterans ensuring we can end chronic and veteran homelessness by 2015. All told, despite tough choices, this proposed budget allows us to serve 27,000 more vulnerable families. It recognizes that the recovery of our housing market is essential to our broader economic recovery and it expresses our belief that every American should get a fair shot, do their fair share and play by the same rules.

SETTLEMENT WITH BANKS

Mr. LATHAM. Thank you, Mr. Secretary. The settlement between some of the Nation's largest banks and the administration, close to a billion dollars, you said 900 million, will go to the Federal government to repay public funds lost as a result of servicer misconduct. Did FHA pay claims on mortgages insured by the agency due to servicer misconduct? If so, how much? What were the costs?

Secretary DONOVAN. What we did to arrive at that settlement amount is both on the servicing side. And the origination side starting in the summer of 2010, we began an intensive investigation of our five largest servicers and in each case, both on the origination and servicing side where we settled, we looked at thousands and thousands of files to arrive at a statistically significant number that gave us confidence we understood in the broader portfolios what share of loans were either originated or serviced in violation of HUD requirements. In the end, because we have the authority thanks to Congress in many of those cases to assess treble damages, we arrived at a figure for servicer of what the maximum potential exposure would be considering those treble damages.

Like in any other settlement, we then entered into a negotiation. It was not clear for sure whether we would win all those cases or whether we would be awarded the full amount, but essentially those treble damages we calculated created a kind of ceiling if you will on the potential exposure and the single damages, one time the losses that came to the fund as a result of those loans, created kind of the floor and there was a negotiation to arrive at the final numbers that we arrived at in the settlement both on the origination and on the servicing side.

So that was the process to get to those dollars. This is far and away by 10 times the largest settlement we have ever gotten in recovery for the FHA Fund so that it represents a very aggressive effort to hold these lenders accountable.

Mr. LATHAM. With treble, what would be the ceiling?

Secretary DONOVAN. It would be in the range of about twice what we were able to recover. Where we ended up was between a single damages estimate and a treble. But, again, there is risk anytime you go to litigation that you are not going to recover that full treble damages amount so that we were in no case assured that we would be able to recover the full treble damages.

Mr. LATHAM. When do you expect to receive the funds?

Secretary DONOVAN. The settlement specifies that funds have to be paid to the FHA within 7 days of the suit being approved by the Federal District court here in the D.C. circuit. We expect that approval to happen in April. We do not have an exact date on that, but I would certainly expect that by May 1 we should have those receipts to the Fund.

Mr. LATHAM. If you do not get the funds, then you would have to draw down on the line of credit from Treasury to avoid a negative balance. Is that right?

Secretary DONOVAN. That really depends on what happens the rest of the fiscal year. With the increased premiums that were in our budget as well as the ones we have announced since then, it really depends particularly on the volume of lending that we have this year whether we would need to. But again, I think the chances of us not getting this funding at this point are extremely low given the agreements that we have reached and the role of the Federal District court to be able to enforce the settlement.

SUSTAINABLE COMMUNITIES

Mr. LATHAM. Once again you are proposing funding for sustainable communities, even though Congress did not fund it last year. While I support allowing—and even encouraging—communities to work together to think about development in a holistic way, I cannot support the administration picking 10 percent of interested communities to receive the funding.

As you know, there is no legal framework for the program. There is no definition of sustainability or livability. It appears to be simply in the eye of the beholder. So this, I think, should be a local decision and not a decision made by the administration without any authorization. Our colleagues on the Financial Services Committee, led by Ranking Member Mr. Frank, have recommended that we not fund sustainable communities and that we transfer those funds to community development block grants. Your budget funds sustainable communities in the same account that has the block grants; so every dollar for sustainable communities comes out of those block grants. Why is funding for the pilot program more important than increasing funding for communities to give them the flexibility to use those dollars?

Secretary DONOVAN. I think it is a very important question in terms of the way this funding kind of works together and also how they are different. Let me try to focus in particular on what we were able to accomplish with the sustainable communities grants that we cannot with CDBG. Again, I think it is very important to recognize as you said that it is critical that this be about a local vision and I think the demand for the program, the fact that we have had 10 times more applications than we have been able to fund, is a good measure of the fact this really is about local interest in implementing their vision.

Specifically, the things that CDBG cannot do that this effort is able to accomplish, one, is to work across geographic lines. More and more, economies are regional and yet CDBG goes to individual localities or to states not funding the way that economies are now working in our metropolitan and rural areas on a regional line. Kansas City is a very good example where the Mid-America Re-

gional Council has funding that covers a metro area that is in two different states, for example.

A second is that private sector actors are not just indirect beneficiaries but can directly come in and be part of these applications. As you know, in the Des Moines Regional Partnerships case, a chamber of commerce that covers a regional area in Iowa, they have been a direct applicant in funding and have been implementing their plan which they began well before this program was put into place but needed funding to make that happen.

A third example is that in many cases market rate housing is an important part of these strategies. North Dakota has seen a boom in oil production in the northwest corner. They have individuals making over $100,000 a year that are sleeping in their trucks or in man camps because they cannot build fast enough. Clearly that kind of housing would not qualify for CDBG because of the income limits and they have been able to put into place a strategy to grow private sector market rate housing through zoning and planning and other things that they would not be able to keep up with or fund but for this grant.

Mr. LATHAM. You do not think that they would be able to fund that with the explosion of money in that area without your help? I am sorry, but they have more money than they know what to do with out there.

Secretary DONOVAN. Clearly, and I have visited myself that region, what I heard time and again from them is they have not been able to keep up with the necessary planning and zoning to have a regional plan that cuts across jurisdictions to keep up with this. Could that do it in the long run? They might be able to achieve it, but it might take 5 to 10 years longer without this support.

Mr. LATHAM. I am out of time but it is amazing that the federal government has to come in and subsidize them to do planning. I am not sure that that would be expedited, having federal restrictions involved in the funding there.

Mr. Olver. I have gone over time, so I will be flexible with you, sir.

Mr. OLVER. Let me start with a set of comments to try to elicit some metrics on the program. How many actual sustainability grants were given out? We know that we funded it in 2010 and again in 2011, but not in 2012, so we have had 2 years of funding. How many grants went out in 2010?

Secretary DONOVAN. I believe there were 45 regional grants.

Mr. OLVER. Regional grants?

Secretary DONOVAN. Yes. And 100 percent of those have been allocated both in 2010 and 2011. One hundred percent of it has been obligated at this point to those grants.

Mr. OLVER. Where are the 2011 monies? Have those all been awarded and at what stage are they?

Secretary DONOVAN. One hundred percent have been awarded so that 100 percent of the funding has been obligated at this point.

Mr. OLVER. One hundred percent obligated?

Secretary DONOVAN. Yes.

Mr. OLVER. But it is far too early to know what may have been achieved by it.

Secretary DONOVAN. The 2010 grants are about halfway through their 3-year life and so what we have started to see is a number of communities that have completed and are implementing the planning already. Columbia, Tennessee, was the first to do that, we have a number of others, that even though they are only halfway through the period have now completed plans and are beginning to implement already. We would be happy to provide more details on the specifics.

Mr. OLVER. Is there any other place in the HUD budget that regional planning, broadly regional kinds of considerations, are taken up?

Secretary DONOVAN. There is no other way for us to fund directly those regionals that cross county lines or even particularly across state lines which is particularly important in many communities.

Mr. OLVER. But you sort of mentioned when you talked about Memphis and the effects that that regional planning program has on Arkansas and Mississippi.

I would also note that from a map that I sometimes keep a vision of, that the Charlotte, North Carolina, area has a broad regional—quite a number of counties involved, and they are in South Carolina and North Carolina, and provide—my guess is, if my colleague from North Carolina were here, he would be very supportive of that sort of thing.

So what I am getting at is, the Chairman has pointed out that it is not authorized, but then neither, by the way, is CDBG authorized at this stage. It was authorized once, but it has not been authorized in quite a number of years.

So this is an effort, as I see it, at doing something in a broad regional way. What have you learned out of this in these first 2 years? When some of them are well in implementation, you have probably been following what they are doing. What are the features of projects which are particularly important in these kinds of sustainability initiative grants that would not get otherwise dealt with? What are the features that are important to it? And where do you see some of the biggest opportunities?

As we know, you have only been able to give 10 percent of the applications that came in, so there is a demand. It is a lot like the TIGER Grant demand for flexible material that is coming from the communities. It is emanating from the communities rather than in a top down way.

Secretary DONOVAN. So I would say two things that have been particularly helpful that we have learned. One is that having the chambers of commerce, the private sector engaged in this regional planning from the beginning makes it much more likely that they are effective. And there are more than a half a dozen examples where we have cut across state lines partnering with chambers of commerce: Idaho and Colorado, you mentioned Mississippi and Arkansas, North and South Carolina, Iowa and Nebraska, New York and Connecticut; I mentioned Missouri and Kansas. All of those are examples where we have the chamber of commerce regionally leading this, and they are particularly interested in how we ensure that infrastructure investment is coordinated across state lines.

One of the biggest barriers to the growth of regional economies is this fragmentation, where we have different tax systems, different planning systems, different land use systems.

The other thing that I would point out is that these grants have put these communities in a much better position to be able to benefit from a broad range of federal investments, because we have aligned at the Federal level that our Kansas City is a good example, where they have been able to access investments to implement their plans from six different Federal agencies, including HUD.

So these plans have put them in a much better position to be able to attract private capital and other federal capital toward their plans.

Mr. LATHAM. Gentlemen, it is time. Thank you. Mr. Carter.

Mr. CARTER. Thank you, Mr. Chairman. Thank you, Secretary Donovan.

Secretary DONOVAN. Thank you.

HUD/VASH

Mr. CARTER. I am, I would say blessed, in my district to have the largest military facility on Earth, Texas, which makes veterans a priority in my world. We have got to be concerned about the men and women who serve bravely in the armed forces. They are coming back. And you mentioned sequester, and if sequester goes through, in addition to the agreed cuts in the military which will put soldiers out on the street, we are going to see possibly another 100,000 soldiers come out of our army as a result of the sequester, heaven forbid, I hope.

But we have to be concerned about this. And I am very supportive of the HUD VASH program. My veterans are very supportive of this program and enthusiastic about it. I support the President's request for 75 million and 10,000 new vouchers.

I guess the first question we need to ask, and I would like your expertise on it, does HUD have estimates regarding the number of additional vouchers? Will this number work? Do we need more? Are there other forms of assistance we need to accomplish the goal of ending veteran homelessness? We do not want another generation, as our Vietnam veterans were, of homeless veterans.

Secretary DONOVAN. First of all, I would say that this has been an area where I must recognize the very strong work that the committee has done on a bipartisan basis to support this. It is largely because of VASH, although we have other investments around veterans homelessness, as well, that we were able to accomplish a 12 percent reduction in veterans homelessness around the country in just one year, and, in fact, an 18 percent reduction in the number of veterans sleeping on the street. So it is working, and thanks to the push of this committee, we have been able to improve the implementation.

We do think that 10,000 is the right number per year to add to this. We think it would be hard to absorb a significantly higher number than that in a year. But we do think that we will need an additional likely 2 to 3 years more allocations after this in order to truly solve veterans homelessness.

And so we do think if we can get 10,000 this year, that is the right thing for this annual budget. But we should recognize that

it will not be the last allocation that we will need to solve veterans homelessness.

Mr. CARTER. Well, I am fully supportive of that. I guess the other question that I am going to be talking to the city about this, too, probably today, how is HUD and VA working? Are they working well together? Are there stumbling blocks that you bump into as you work between the agencies to get this done? And what can we do to improve the program?

Secretary DONOVAN. So I would just recognize Secretary Shinseki and his team have been great partners. We actually have regular HUD Stat meetings that combine our staffs. We set a joint goal for reducing veterans homelessness. We were not even using the same systems to count veterans before. And I think, as the committee knows, when we came into office, the VASH program had only served about 1,200 veterans in total. We are now over 35,000 and counting.

We are not only accelerating our progress, we serve 28 percent—or about 30 percent more veterans in 2011 than we did in 2010. It allowed us to exceed our goal that we set jointly for VASH with VA by 78 percent over the last 2 years. And we decreased the amount of time it takes to get a veteran into a VASH voucher by 40 percent. So we have made real progress in partnering with them.

I think the single most important thing that we can continue to do is to make sure that we have—we continue to build the data systems, and this committee has been very supportive of the investments that we are making in our information technology infrastructure to be able to count and target those vouchers to the right places.

And I think you will see increasingly, in the next year or more, that we will be targeting these vouchers to places where we have the largest concentration of veterans. Many of them tend to come back to bases and stay in those communities, and so we need to be more strategic about figuring out exactly where these vouchers should go.

Mr. CARTER. Very good. Thank you, Mr. Chairman.

Secretary DONOVAN. Thank you.

Mr. LATHAM. Thank you, Judge. In the order of appearance here, Mr. Dent.

CDBG FORMULA

Mr. DENT. Thanks, Mr. Chairman, Mr. Secretary, good to be with you today. As you are aware, some communities in my district took a pretty significant cut in their formula allocations under CDBG due to the funding, due, in part, to the funding reductions in the fiscal year 2012 bill, but largely as a result of the new Census data. They ended up taking a pretty disproportionate share of the cuts, cities like Allentown.

I am concerned that the formula in the application, the new Census data, short-shifts the high-need communities while providing additional resources to communities that may not be as in desperate need. I know there has been a great deal of attention to this when the formula allocations came out a little while back. With these limited resources, I think we are going to have to work to en-

sure every dollar is being spent and leveraged as effectively as possible. Has the department looked at the impact and considered these recommendations?

I am concerned, too, when you look at those three factors in determining the allocations, you have got poverty, you have got this population growth lag, and then the age of the housing stock, and what are you recommending to deal with this? Because a city like Allentown grew very substantially, and a lot of that growth was a lower income population, and they seem to be penalized under the formula for that. I am just curious as to the reaction.

Secretary DONOVAN. And you are exactly right, particularly in the case of Allentown. It is a Formula B. There are two different formulas that are used. It is Formula B for Allentown, which really was driven by a lower number of older housing units relative to——

Mr. DENT. Pre-1940.

Secretary DONOVAN. Pre-1940 relative to other communities. And, frankly, that they did not—Allentown did not experience as much shrinkage or loss of population compared to other communities over those 10 years. We do not have any flexibility in terms of how we implement it. It is statutory that we needed to use this new data. And Allentown is not alone in terms of the impacts.

In terms of what we would propose, we have proposed in past years changes to the formula for CDBG that would update it. We are still operating on the original formula from decades ago. In 1975, the program was created. And, frankly, we do think it is worth working with Congress toward reform of the formula.

So the difficult thing, to be frank, is that in an era of shrinking dollars for the program, it makes it that much harder to do formula reform because, for the losers on that formula reform, the cuts are even more dramatic, as you have seen with the recent formula.

And so we had proposed originally a sort of hold harmless factor that we would provide when we proposed an increase in CDBG funding. Unfortunately, with the challenges in the budget this year, we simply were not able to propose a kind of hold harmless methodology that would allow us to do that reform. So we think that is something worth Congress working together on. We think it is going to be very difficult, frankly, in this budget environment this year to see that reform happen with the harm that it would provide to many communities.

Mr. DENT. Well, CDBG, I will assume that it is going to become even more diluted if we do not adjust this allocation formula. Another question regarding CDBG, I corresponded with the department in the fall last year about an issue that came up in my district with a misuse of CDBG funds. What was happening, that a city in my district was improperly transferring CDBG funds into the city's general fund in order to support operating expenditures and costs.

I appreciated prompt response with respect to this particular situation.

I want to continue a dialogue with you on what is being done on a broader level to make sure that funding is being used very efficiently and effectively. Language in our bill last year directed you to work to identify and address waste, fraud, and abuse in pro-

grams like CDBG and HOME. As I wrote you in October, I support the CDBG and believe one of the strengths of the program is that it gives localities flexibility to target resources.

However, it is not intended to be used as a slush fund, to backfill other budget shortfalls. I am just interested in your comments on efforts to address these issues more broadly. Are you seeing this around the country, communities in these tough times moving their CDBG funds, you know, backfilling elsewhere which is clearly prohibited?

Secretary DONOVAN. What I would say is, we have two different issues here that we are seeing, and the budget pressures, the cuts in CDBG, there is no question that it has reduced the number of staff that localities have that are doing budgeting, doing maundering and oversight, and that does raise concerns for us in terms of the challenges in operating and implementing the program well.

On the one hand, what we have done with the help of this committee, you have given us more flexibility to invest in the right kind of technical assistance. It used to be that our—we were basically sort of check-the-box technical assistance. Now what we do is go in and do a much more real assessment of what the shortfalls in a community's oversight of the program is and target training and help to them to build their capacity, particularly with the limited budget resources that they have.

On the other hand, we have had to increase accountability. And so what we have done and what we are going to be doing this year with the support of the Committee is significantly improving our data systems to find and avoid the kind of challenges that you are talking about, where money may be diverted. We need to have better systems that ensure that we have that data that shows us where communities may be misusing those funds.

Mr. DENT. Thank you.

Mr. LATHAM. Gentlemen, your time has expired. The gentleman from Ohio, Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman, Mr. Secretary, nice to see you.

Secretary DONOVAN. Good to see you.

NEIGHBORHOOD STABILIZATION PROGRAM (NSP) 2 GRANTS

Mr. LATOURETTE. In a rare spurt of bipartisanship on Monday, we introduced a piece of legislation with a lot of Republicans and Democrats from Ohio and Michigan in particular, and we hope to broaden the base, that deals with the situation of abandoned property. As you know, currently only 10 percent of the neighborhood stabilization funds may be used by a community to demolish properties.

The bill would permit those cities and land banks to use 100 percent where it is appropriate, and in addition, supplement those funds with the authority for Treasury to issue $4 billion in qualified bonds, where the bond holders would receive tax credits rather than other compensation.

We toured an area in Cleveland, Marcia Fudge's district, called Slavic Village, and, you know, everybody has heard the expression, "Everything but the kitchen sink." We actually went into a house

with no wiring, no copper, down to the studs, and they had taken the kitchen sink.

And so while I think everybody has as a goal, you know, if you can go in and rehab and refurbish a house, that is great, but I think everybody knows that there are some houses that are not coming back no matter what the good intentions are. The City of Cleveland has already taken down 6,000 houses. They have 15,000 more to go. And so this program is going to be modeled after something in Flint, Michigan. Dan Kildee had a land bank up there who is now, I understand, running to fill the seat of his retiring father, Dale Kildee, our colleague, took about $3 million and used it to demolish homes. And as a result, they saw the tax duplicate in the City of Flint, Michigan, go up 200 million. And, clearly, I think sometimes before you can rebuild, you have got to rip it out.

So my questions are multi-planed. One, are you familiar with what they did in Flint? And if you are not, I would be happy to send it to you. And two, just the outline that I have described of the legislation, which I think is going to receive a lot of bipartisan support here in the House and also in the Senate, does any of that cause you any angst as sort of the shepherd of the neighborhood stabilization?

Secretary DONOVAN. So, first of all, very familiar with what Dan Kildee has done. And, in fact, we have worked with him very closely. The largest NSP2 Grant that we made was to the State of Michigan and included the leadership of Dan's organization in bringing together a range of different municipalities that were hard hit.

And I want to thank you for introducing the legislation. We are very supportive of what you are trying to achieve with that legislation. We think it does work very well along the principals of what we have done with neighborhood stabilization. In fact, there has been an investment of almost half a billion dollars in Ohio alone through neighborhood stabilization. We have been very willing to grant waivers to go above 10 percent in terms of demolition, and I think there are almost 14,000 homes that have been demolished across. You mentioned Cleveland in particular, but many others in many cities.

And we know that there is much more demand—Detroit, Cleveland, many other places in Ohio, as well—and that is why the President, as part of the Jobs Act, proposed Project Rebuild, which would provide the kind of flexibility that we did in neighborhood stabilization to do demolitions.

We obviously think that, in some cases, keeping those homes, renovating them makes sense if it is a neighborhood that is viable. It is very good for job creation. We think Project Rebuild will create about 200,000 jobs. But we would very much look forward to working with you and Congresswoman Fudge to advance legislation that would continue to build on what we have been able to achieve together with NSP and could achieve with Project Rebuild and the Restore Our Neighborhoods Act.

Mr. LATOURETTE. I really appreciate that. And as we move this product to the floor, I very much look forward to the administration—in support of this so we can get everybody to vote for it. And I would just say, aside from the jobs and rebounding out their

value, these things are dangerous. Last year, Cleveland police officers have been injured going in, for people who have sort of decided to homestead there. A month and a half ago, a young woman and her one-year-old daughter were dragged into an abandoned home and killed.

So I think it is the right thing to do. I am glad to have your support. We will stay in touch as we move it forward.

Secretary DONOVAN. I would just add, Congressman, just yesterday we had a HUD Stat meeting on this exact topic to look at the impact neighborhood stabilization is having. Interestingly, what we are seeing, because demolition tends to be faster, some of the most impressive results we have seen from the analysis we are doing, the vacancy rates are down, home prices are up in these neighborhoods where we focused on demolition. So we would be happy to provide that information to you.

Mr. LATOURETTE. Thanks so much.

UNDEROCCUPIED HOUSING UNITS

Mr. LATHAM. Thank you, Mr. LaTourette. I am still somewhat stunned by using the North Dakota example for sustainable communities. I mean, Mr. Dent, I think, clearly stated the need for the community development block grants. And to give—I mean, God bless them, maybe they need your help up there, but, you have got roughnecks making 100 grand a year, you have got dirt farmers that have been poor all their lives who are now multi-, multi-, multi-millionaires up there. So you are taking money away from communities that really need it and subsidizing a community that has got more money than it knows what to do with. I do not understand that, but we will move on. Okay.

Earlier this month, the New York Times reported on a very troubling issue with the New York City Housing Authority, where about a third of all housing units are under-occupied, with fewer occupants than appropriate for the unit. At the same time, the article said 15,000 units are over-crowded and 160,000 families are on a waiting list for housing.

If you can just tell us how widespread the problem of the mismatch between the available housing and families served is, and what we can do to fix the problem, some remedies. You are very familiar, obviously, with that market.

Secretary DONOVAN. Yes, and I think one of the things that the article pointed out is, this is not unique to the New York City Housing Authority. You do have, particularly where a senior or an older couple whose children have moved away, they are overhoused, and it is a significant number.

To be frank about this, this is not a simple issue. As you can imagine, somebody who has been in their home for some period of time, to force them to move is often difficult. You may have a resistance or lawsuits or other things that——

Mr. LATHAM. Talk to my mother.

Secretary DONOVAN. Right. So it is something that we have focused on and tried to make sure that housing authorities are implementing rules, but we have left some flexibility to housing authorities about how they push that or incentivize it and how strong the rules are in terms of whether you would displace a family from

their community or a senior from their community to be able to move. So it is something that we have not taken a sort of one size fits all approach on, frankly.

If it is something that the committee would want to focus on or that you personally would want to focus on, we would be happy to come back to you with more analysis of the specifics and some options that we might consider, either legislatively or through notice of regulations.

Mr. LATHAM. Is there anything in the budget specifically to address the problem?

Secretary DONOVAN. I think the improvements in data systems and other things, that we have could help with that, but we do not have a specific proposal in the budget to deal with that issue.

FHA REFINANCING

Mr. LATHAM. Yes, work with it certainly. On a different subject, you mentioned one of the steps to bring private capital back is your recent administrative actions, which include increasing the premium of FHA by 75 basis points. However, in your and the CBO assumptions on the receipts associated with this policy, do not assume that this will reduce the value of the FHA guarantees. How then, is it not simply a budget gimmick to make FHA borrowers pay an extra fee to fund other discretionary programs?

And your assumptions, they are kind of saying two different things. Number one, it will not affect the volume, but then again, you are saying that it will affect the volume.

Secretary DONOVAN. Yes. I think it is an important question. And as you said at the outset——

Mr. LATHAM. Very good.

Secretary DONOVAN [continuing]. The devil is in the details, right. We actually did estimate a reduction in volume in our budget for next year. I think what you are seeing——

Mr. LATHAM. I do not think CBO did.

Secretary DONOVAN. What CBO did, we made it—we announced, since our budget was introduced a reduction in our refinancing fee. And so I think what is driving their numbers is that a number of refinances will increase. Just to be clear, those refinances are existing FHA borrowers. So it is not adding to the total number or share of borrowers that have FHA loans, it is simply taking borrowers that are in FHA and refinancing them in FHA. So the fact that you would see a volume increase does not necessarily mean it is adding to our market share, so to speak, particularly of the new loans that we make.

Mr. LATHAM. If they are existing loans, it would not be an increase.

Secretary DONOVAN. It would be an increase in originations, because instead of them just keeping their old loan, they are getting a new FHA loan, but it is not a new borrower to FHA. And I told you the devil was in the detail. What we are seeing, though, is a continuing shrinkage in our origination for purchase, and that is really what shrinks our market share.

And as you know, Congress passed an increase of 10 basis-points in our annual fee to pay for the short-term extension of the payroll tax cut. That is about $9 a month on average in increased fees. Our

up-front increase we think is about $5 a month on average. So the two of those together we do think will shrink the share of the market that we have in purchase loans while our refinancing of existing FHA loans does increase, and that is what explains the difference.

And we think, frankly, it is the purchase loans where it is most important that we focus on shrinking that share. For refinances, what we are really doing is helping the economy more broadly by lowering on average about $3,000 a year the payments that those homeowners would make.

Mr. LATHAM. I am certainly glad you have clarified that. Mr. Olver.

Mr. OLVER. I want to engage just a minute about the North Dakota situation. I have watched the Census statistics for North Dakota now carefully for the last two Census, and in the 2000 Census, of the 96 counties in North Dakota, there were only 6 in the whole state that grew in population. Virtually the whole western part of the state was losing population. Every county was losing population in the western part of the state.

Interestingly, I was surprised, I thought there would be roughly the same pattern. With the 2010 Census, there were several counties there in western North Dakota that actually were growing in population, and that is the oil boom. But most of them were still losing. There were now a dozen communities that were actually gaining population, even though the state's population was gaining way below the national average, nonetheless even though there were a few more counties that were gaining in population.

And there are some of those counties that are basically major Indian Reservations, or a number of Indian Reservations, in North Dakota and South Dakota, though I do not have the map in front of me so I cannot be sure exactly where they are. It is almost half of the state that was part of what was getting money. So there are places there which clearly have some rather unique sorts of needs. At the same time, the growth and the boom, the oil boom, is very narrowly located and growth there might be a reasonable time to actually do some regional planning about what you are going to do with that growth, because it is probably going to be there. That oil growth is going to be there for quite a number of years.

So, I am not so sure that that is an illegitimate one. It was a pretty small grant, even though it covered a lot of territory. A pretty small grant, it was only a million and a half dollars or so in that planning grant.

I would have commented on Cleveland. Well, I will. Do you ask for something in the—it is the Sustainable Communities' planning grants to recognize that one of the areas that they might think about is how to deal with foreclosed housing? I mean, often I read columns written by economists who say the housing market is not going to really recover until we have absorbed all of the foreclosed housing, a fair amount of which in the most severe places have actually been trashed, as Mr. LaTourette was commenting about. But there are lots and lots of those, and if those do not get absorbed, are you particularly asking for large urban areas that were hit to consider what they might use in implementation, what they would be planning for? Or is that something that plans take some time

to come up with and you really need something that is happening right now that you can use your money for? And can CDBG money be flexibly used to do exactly that sort of thing to buy up those properties?

Secretary DONOVAN. So, specifically in Cleveland, the work that we have done through Sustainable Communities has included these challenges. So it is focused on how those neighborhoods that have been particularly hard-hit are tied in through infrastructure and transportation. But, again, this goes back to the point about this is really about a local vision for what this funding would be used for. We have many areas that may be growing, like, again, the North Dakota example, growing where that would not be an issue, right? And so it really is going to be driven by—the only other thing I would just say on it, to go back to the North Dakota example, the fact that the real issue here is, are there resources to do this kind of planning? And is that planning something that the country ought to want to see?

And the fact is, the problem is that the growth cannot keep up with the needs of oil production there, and, frankly, somebody living in a camper or in a man-camp does not contribute to the funds that a community needs to plan with cuts to CDBG and other cuts from shrinkage around the state. We thought that this was actually a very good use of funds that were not available otherwise, and would help not just the local economy but the national economy by allowing faster growth in oil production in that part of the world.

Mr. OLVER. Could I use one minute of my next time so that I can go on?

Mr. LATHAM. The gentleman is recognized for an additional one minute.

Mr. OLVER. I wanted to make a comment to my colleague, Mr. Dent, but he has now left. When I start speaking, people leave.

Mr. LATHAM. So you have burned your minute?

Mr. OLVER. No, no. That is all right. I yield back.

Mr. LATHAM. Judge Carter.

REGULATORY BURDENS

Mr. CARTER. Thank you, Mr. Chairman. Secretary Donovan, last night I was reading through your fiscal year 2013 budget overview and noticed your budget principles include reducing regulatory burdens and increasing efficiency. Well, I was pleased and a little bit shocked because when I go home every week, and I go home to Texas every week, my constituents are constantly telling me that the regulatory burden that is being imposed by this administration is killing job growth in our world. And I know the President in his speech to the Congress talked about repealing regulations and rolling back job-killing regulations, but folks back home are not seeing it.

It is a good election-time speech to make, but we see 106 major regulations that have been imposed on industry, which has killed jobs and costing us about $46 billion annually, which is around 5 times what the previous administration did in a 3-year period. So, let us talk about what HUD is doing to rein in unnecessary regulations. Give me some specifics as to what you are doing to kill job-killing regulations.

Secretary DONOVAN. Let me try to be very specific about things that are included in this budget that would allow us to do that.

One, we are working very closely with your colleagues on the authorizing side to pass Section 8 reform legislation that would lower the cost of operating these programs. Just to give you one very specific example, over 50 percent of those who have vouchers or live in public housing are seniors or people with disabilities whose incomes rarely change. They are on fixed incomes. And yet, we have not had the flexibility in the programs to do income recertification less frequently for those kind of families than we would for others.

Another example is, those apartments that they live in typically have less wear and tear, and yet we have no flexibility on how often we might inspect those or we may have an inspection for one program and then have to go back and do a second inspection for a second program. Providing flexibility to housing authorities in the way they implement these programs will reduce the costs and, in fact, you see that savings reflected in the budget. We are also simplifying the way we calculate income and medical deductions and a whole range of other things that are part of it.

A second thing I would point out that we are proposing in the budget itself, not through authorizing legislation, is to combine the operating and the capital funds. Right now, we create a lot of paperwork for housing authorities to track those two different funds separately when every other kind of housing operates with a single stream of revenue and does not have to divide up the operating and the capital. So, that is a simplification, a streamlining that would provide real benefits and allow us with the same dollars to serve more people.

And those are the kinds of things that have allowed us—we actually have in our budget our proposal. We would fund the same number of people in the voucher program with no increase in cost this year, and the Chairman referred to this in his opening statement. The concern about the long-term costs of renewal of these programs, we have actually been able to keep it level in the voucher program because of many of those streamlining changes that we proposed in the budget this year.

Mr. CARTER. Are you doing—you mentioned Section 8 and having a little bit of knowledge about that. Is it basically Section 8 existing that you are issuing the vouchers for or is there actually new construction projects in Section 8? I know there is probably rehab projects going on in Section 8. What about the construction side of the HUD regulations that in some instances are very, very onerous? Having been in that business myself, especially when local codes are being met and HUD is imposing additional and sometimes complex codes on top of local codes, is anything being done in that area to reduce the regulatory burden?

Secretary DONOVAN. We are making some of the same changes on the project-based Section 8 side. Just to be clear, we do not do new project-based Section 8 contracts, so it is all existing. The only new housing that is being developed with Section 8 is in our project-based voucher program. That is where a housing authority has the flexibility to choose to project-base some units for a particular development. And so the streamlining we are proposing on

the voucher side would help to simplify for that new construction the regulation.

Mr. CARTER. Okay. Thank you, Mr. Chairman.

Mr. LATHAM. Thank you, gentlemen. Mr. Diaz-Balart.

CDBG FORMULA

Mr. DIAZ-BALART. Thank you very much, Mr. Chairman. Mr. Secretary, how are you, sir?

Secretary DONOVAN. Doing well, thank you. Good to see you.

Mr. DIAZ-BALART. Good to see you, and thanks again for your service. Let me follow up on Mr. Dent. And I apologize, Mr. Chairman. As you know, there are multiple hearings going on at the same time.

Mr. LATHAM. I have to be at one myself.

Mr. DIAZ-BALART. Yes, it is that time of the year. CDBG funds, and though I was not here, my staff basically gave me a quick update as to what the conversation was. And obviously my specific concern here is the new formula.

In the case of, for example, the city of Hialeah, which I represent, which is a poor city. As you know, South Florida, Southeast Florida, was in the epicenter of the housing crisis. Unemployment is exceedingly high. We can go on and on and on, and yet I believe they received a 50 percent reduction. Was it 50? Forty-seven percent reduction on that formula, and there is just no way. In other words, there is no reasonable way with the economic situation in that city, with the demographics of that city—by the way, it is a minority majority city. I do not see how mathematically that can work. It makes no sense. It does not pass the straight-face test.

So what I would like is to see if you can look at that specifically because when you look at, the national situation out there—Southeast Florida, again, South Florida—got hit exceedingly hard and yet they are getting hit in a level that makes no sense whatsoever.

Hialeah City—Miami, which I do not have the privilege of representing, but they also have huge hits, but, again, Hialeah, the highest in the country, I believe. And there is no way that the city of Hialeah—I do not think that there is a way that you can justify the city of Hialeah being the hardest hit in the country when you look at the demographics, when you look at the economy, et cetera, and the population.

So, that is something that I would like to somehow revisit with you, with your staff, and if you could let me know how to do that so that we can look at it and figure out what happened there because that makes no sense.

Secretary DONOVAN. Congressman, we would be very happy to do that, and the short answer is that change was required statutorily——

Mr. DIAZ-BALART. I know.

Secretary DONOVAN [continuing]. By the data that we implement. I agree with you that the formula is outdated. In fact, with your colleague Mr. Dent we had a very similar discussion about Allentown for different reasons——

Mr. DIAZ-BALART. Sure.

Secretary DONOVAN [continuing]. But a cut that was deeper than the average cut across the country. And there is no question that

the formula has outdated elements to it that have not kept pace with what is happening on the ground, with the challenges that South Florida is facing.

I would say we have been very happy to be able to work with you and we appreciate your support around the regional planning work that we have been doing that has added to the funds that are available to that community, and done it on a regional basis through the Sustainable Communities Program. And I just wanted to say thank you.

Mr. DIAZ-BALART. Well, and, Secretary——

Secretary DONOVAN. Thank you for your support on that.

Mr. DIAZ-BALART. Thank you for being extremely accessible. For example, the issue of Chinese drywall, which as you know you were out there yourself and you saw what a tragedy that is for the individuals that have to suffer.

Secretary DONOVAN. Yeah.

Mr. DIAZ-BALART. It is hard to explain it to people——

Secretary DONOVAN. Until you see it.

Mr. DIAZ-BALART [continuing]. Just how—until you see it. But anyway, thank you for being accessible. That is why I wanted to bring this up and, hopefully, we can maybe sit down with, you know——

Secretary DONOVAN. I would be happy to do that. Whatever we can do.

Mr. DIAZ-BALART [continuing]. Your folks and figure out how we can get a handle on that. Thank you.

Secretary DONOVAN. Thank you.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

Mr. LATHAM. Thank you, gentlemen. The gentleman from Arkansas.

Mr. WOMACK. Yes, thank you. And I apologize for being late. There are a number of hearings going on and we are all consumed by those.

I want to go back to Section 8 reforms for just a minute. Is there a time when we are going to have the U and the D out of HUD dropped? Because housing consumes virtually everything. I mean, we are $19 billion now? Over $19 billion in housing programs? Do you foresee that this becomes just basically a housing organization?

Secretary DONOVAN. Actually, frankly, we are trying to move in the other direction to make sure that we are doing more to support not just urban development, but rural development as well. Our discussion earlier about the work we are doing on regional planning and other things, and the coordination that we have had, one of the big problems that we have had is that we have only thought about housing separately and we have not thought about it in a combined way with transportation or other infrastructure investments, to the point where the average American family now spends 52 cents of every dollar they earn just on housing and transportation. We have not coordinated where folks live, where they work. And what it has meant is for many communities the cost of moving goods, it has become much less competitive for many regional economies to be able to compete with China and other countries, because we have not focused on trying to coordinate and do a bet-

ter job at the Federal level of integrating the way that we make these investments.

So, the more we can do on streamlining our programs, simplifying them, saving costs, I think the more that we can make sure we can continue to meet both missions of the department.

PHA STAFF SALARIES

Mr. WOMACK. Last year, in a hearing there was a great deal of discussion that transpired about the pay of public housing administrators. I guess the new current law, if I am reading correctly, says that no use of this year's funds may go to increasing the salary above what the Assistant Secretary makes. But my understanding is that some housing authorities are interpreting that line about no use of this year's funds to mean that money reserved from previous years and not the money of the municipality if you are going to pay somebody more in salary.

Are you aware of that practice?

Secretary DONOVAN. I honestly was not, had not heard that there was this issue about prior year funds. We can check to make sure. I do not think that is accurate, if that is the way it is being perceived. And it is something that we can certainly work——

Mr. WOMACK. And I hope it is not.

Secretary DONOVAN [continuing]. With housing authorities on.

One thing I would say, Congressman, and this committee was very focused on this last year, it is one thing to set those limits. The other thing is that I think we feel very strongly there needs to be some real transparency about this issue. And so, within the next few weeks, we will be making public for the first time ever the salaries and other compensation of the top five officers in every housing authority around the country. We believe this is something the public has a right to know, and so it is something that—and it is something the committee urged us to do last year. We will be making those public in the next few weeks, and we would be happy to sit down with your staff and let you know——

Mr. WOMACK. Very good.

Secretary DONOVAN [continuing]. What that data shows and the timing of making it available.

RECAPTURE

Mr. WOMACK. I applaud you for that transparency. While I appreciate that the public housing recapture is off the table for this fiscal year, I would like to ask one more question about the actual effect of last year's recapture. I have received reports from one of my housing authorities that not only are they receiving modified estimates from HUD on the amount of money to be recaptured from their housing authority, but the appeals process is sporadic, in their words, at best, with HUD officials missing documents in certain cases and communicating that they are still working on responses to those authorities or requesting to speak with someone about their denial.

Small housing authorities have been thrown into economic uncertainty by the flaws of the process and cannot plan future projects until HUD has it all sorted out. Are you aware of the problems, and what is being done to manage this administrative burden?

Secretary DONOVAN. So, I would first of all just say we would be happy—any specific examples where you have concerns we will follow up with you and make sure we know which housing authorities have concerns and what the issues are. Overall, what I would say is this clearly was a new process. We had never before recaptured these reserves. We did propose this to the committee, even though it was controversial. Many housing authorities did not want to give up those reserves, but we felt simply in a time of shrinking resources that we needed to take some steps to make sure that money was being used quickly and effectively and drawing down the reserves rather than cutting other funds, we thought, was the right approach in tough budget times.

We did set up an appeal process, so that housing authorities could come in. I have gotten regular reports from my team on that, and what I would tell you is the vast majority of housing authorities we have been able to work through those appeals. There may be specific cases that you are aware of where there have been issues or document problems. We will be happy to follow up on those.

Mr. WOMACK. Yes, and maybe just an isolated case, but we would like to develop that conversation. Thank you, Secretary, for your remarks. I yield back.

Secretary DONOVAN. Thank you.

SHOP

Mr. LATHAM. I thank the gentleman. Mr. Secretary, the fiscal year 2013 budget proposes to eliminate the SHOP program, which helps organizations like Habitat for Humanity continue to do the good work they do, helping low-income families afford new homes through a combination of sweat equity, private donations, and public funding. Projects funded by SHOP leverage about 5 non-Federal dollars for every 1 Federal dollar. Why are you proposing to eliminate it?

Secretary DONOVAN. Honestly, Mr. Chairman, this is one of those difficult decisions that we had to make. We felt given that this is an eligible use of funds to do self-help housing in the broader home program, that we would leave the flexibility of local jurisdictions to make the decision. Many of them do work very closely with Habitat and these other organizations and do these kinds of projects themselves, and in a different fiscal time we might have maintained the program. We just felt that being able to combine them, have a single program rather than multiple programs that would fund this kind of work, was the choice that we made in a difficult budget year.

Mr. LATHAM. Well, it is my understanding that most of the SHOP sub-grantees are in rural areas, and they have to compete for statewide home funds, which are obviously in high demand and which are oftentimes set aside for large tax credit deals. And with the recent cuts to the HOME program, I do not know how likely it is that anybody who currently is in SHOP is going to be able to compete in the HOME program.

Secretary DONOVAN. Well, look. You will not get an argument from me that the cuts——

Mr. LATHAM. Oh, come on.

Secretary DONOVAN [continuing]. To the HOME program have been tough, and that we would have supported and would support higher levels there. On the other hand, given the choice of having these two programs with these lower funding levels, we felt particularly with the allocations that do go to states that are targeted at rural areas that there was a good chance—and we certainly see this is a priority for many communities to work with organizations like Habitat that do these self-help efforts.

So again, in a different world fiscally we might have made a different choice, but this is what we proposed in the budget.

CDBG FLEXIBILITY

Mr. LATHAM. The GAO's 2011 follow-up report on duplications in programs found that HUD has made minimal progress in assessing the extent to which its economic development programs overlap with those at SBA, USDA, and the Commerce Department. Of these four, HUD is the only one that has not taken steps to define common economic development outcomes with the other agencies. In particular, GAO found the Department does not know what portion of its economic development programs are duplicated by other agency programs.

What are you doing to better understand the extent and types of duplication? And I would really be curious to know what you are doing as far as interagency cooperation so that the programs complement each other rather than duplicate each other.

Secretary DONOVAN. With all due respect, Chairman, what I would say here is this was a case of a disagreement with GAO on this specific point. There are plenty of things in the report that we thought that we agreed with. We have been working, for example, on homelessness to better coordinate and simplify the structure of the programs around our Energy Programs. We have been working very closely with DOE. We simply think in this case, GAO by saying that basically CDBG was a similar program to these other programs that they focused on at other agencies, we did not agree with that. It is a block grant, as you know. It is enormously flexible. It allows infrastructure development. It allows services like Boys and Girls Clubs, a very broad range of things that do not fit into what GAO characterized as character development. And so, we frankly, in our report back to them, disagreed with their point about CDBG looking at combining that with other programs because we think it is a fundamentally different type of program.

Having said that, we do think we can do better and agree with GAO that we can do more to show outcomes and to measure the effectiveness of CDBG, and so we have a range of system improvements that we are proposing and will implement during 2012 to improve the way that we track and monitor the outcomes that CDBG has. We do not want to change its flexibility, so we want to leave local discretion on how it is used. On the other hand, we do think we can do a better job of holding grantees accountable to what those dollars are actually producing through changes that we are making in our systems.

Mr. LATHAM. Okay. Thank you. Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman. I want to return to what the chairman has just been talking about. On the Project-Based

Rental Assistance Program, your 2013 proposal is a $640 million reduction from the enacted 2012 level, and under this proposal, we would expect nearly two-thirds of all of these projects would be funded for only the continuation, only within the fiscal year and not renewals. This is the gimmick that we have seen before and it took $2 billion in the ARRA funding only 3 years ago to make the program whole, and I think we were sort of relearning bad behaviors.

If this were enacted into law, how would HUD propose ensuring the solvency that these contracts for 2014 and beyond, but try for 2014 at least?

Secretary DONOVAN. Yes. Congressman, I want to be very clear from the beginning that this was one of the most difficult decisions we made in this budget. We would not have made this decision were it not that the other choice would have been to reduce the number of families that we could serve somewhere else in our programs. And so, we are not saying it is something we would propose at other times and that it does not have its risks, it does, but we simply made that choice because we thought it was a less bad choice than some of the others we would have had to make.

Mr. OLVER. There is an inflation rate year by year that drives these prices up. What would then for 2014 be the cost of renewing those, even if it were just for the additional one year? Are you proposing that you are thinking would go back to the one year or keep the fiscal year program or are you going to have to do more in one year?

Secretary DONOVAN. It is no question I think this is an important one. This is a one-time savings. It cannot be——

Mr. OLVER. What is the cost in the next year——

Secretary DONOVAN. So, we would need——

Mr. OLVER [continuing]. Of doing this?

Secretary DONOVAN [continuing]. Just under $1.2 billion additional next year to get to the full 12 months of funding. To reverse the short funding, we would need roughly double that in 2014.

To your question earlier, I am confident that we have made improvements in the way we allocate this funding and work with owners that this short funding would not result in units that went unfunded or similar kinds of problems that we saw in the past. I think the risks here are not on the operational side. The issue is there is private capital that comes to these units and there is a risk that there might be somewhat less confidence on the part of those private lenders in supporting these developments should this proposal go through and that might have the effect of raising interest rates or other things. That I think is the risk that I would focus on rather than the operational risk, which I do feel confident we have been able to solve the problems that we saw in the past.

Mr. OLVER. Just let me summarize that. There is a shift into the next year with interest of the costs of doing what is there. Now, you have also suggested that there is some possibility that because there is uncertainty with the financing of some of the projects, how serious do you think that threat is?

Secretary DONOVAN. I think given the history that Congress has always funded these units, they have always made funding available in subsequent years, we already have multiyear contracts that

are funded year by year. So, we have lived with this uncertainty to some degree. I think it would increase that——

Mr. OLVER. Now, that is how we got into the $2 billion one lump sum in the ARRA funding down the way because I have been on this subcommittee for 8 years, 2 years in the ranking position, 4 in chairing, and then back to 2 in ranking under the distinguished present chairman, and I saw exactly what was happening over that period of time. It is a really, really very troubling situation. Thanks.

Mr. LATHAM. Thank you, Mr. Olver. Mario, you do not have any questions?

Mr. DIAZ-BALART. No, sir.

FHA PROJECTIONS

Mr. LATHAM. The Department and the FHA have occasionally been criticized for presenting more positive projections than what actually exists. For example, your projections are routinely more positive than what is reported in the Annual Actuarial Report. As recently as December, you stated that this review "made clear that under base-case economics, the fund will remain positive and its prospects for the future are good." However, 2 months later in your budget, you projected that you would need $688 million drawn from the Treasury. In December, you testified the FHA Fund would recover to statutory minimum of 2 percent capital level by 2014. However, just two months later, you are projecting it will take until fiscal year 2015, even though you have taken a number of measures to help the FHA Fund recover. Should we fire the guy that does projections? Actually, what factors contribute to the worsening conditions? Explain what is going on.

Secretary DONOVAN. Yes.

Mr. LATHAM. Why the projections are so far off all the time.

Secretary DONOVAN. So, the single biggest determinate of the health of the fund is house prices and where they are headed. We have over the last few years the projections that we have used, which are independent projections by Moody's Analytics, they are not done in-house, they are not administration projections, they are independent projections, have proved to be more optimistic than what has actually happened. That is the single factor that has driven the changes that you are talking about.

The other criteria and issues that lead to those projections, in fact, generally have performed better than have been projected within the actuarial study, and I think one good example of that is CBO's estimates this year that receipts will be almost $1.8 billion better next year than the administration projected. In other words, they think our models and our projections are too conservative for what would be.

I think the important one I would point out about the estimate that was in the budget that you pointed to, at the time the budget was published we already knew that those numbers were outdated. We did not have the settlement dollars that we talked about factored in because the settlement was not completed. We also had not announced at that point additional premium increases because we were waiting for the settlement to get completed in order to decide what the final numbers would be that we would impose. So,

we always knew that those numbers were not accurate and that, in fact, we never expected to have to draw on the Treasury. It was simply an artifact of the budgeting process and the timing that those numbers were included. And we continue to believe and, in fact, the budget shows that we expect more than $8 billion in net receipts next year and we expect the fund to recover to the 2 percent consistent with that original projection that you talked about.

Mr. LATHAM. So, we can take that to the bank, right?

Secretary DONOVAN. I wish I had a crystal ball. If I did, I would not be in this job probably; I would be somewhere else making a lot more money. [Laughter].

But, certainly, what I will say is, again, the single most important thing this year that determines where the health of the fund will be is where house prices perform. Our base case was a roughly 1 percent drop this year and that, I think, continues to be what is expected overall net for the year, but we need an additional roughly 4 percent drop before the premium increases to push the fund negative and now it would be a significantly larger drop and that would have to happen this year to drive the fund negative.

Mr. LATHAM. Why do I not go to Mr. Olver?

SECTION 8 ADMINISTRATIVE FEES

Mr. OLVER. Thank you, Mr. Chairman.

Mr. Secretary, in the enacted 2012 bill, administrative fees for tentative base Section 8 were funded slightly lower than fiscal year 2008. During that time, since 2008, we have seen a 14 percent increase in renewal costs for the program.

From what you have seen and heard from public housing agencies, has this lower funding level for the administrative fees impacted the PHA's ability to lease Section 8 vouchers?

Secretary DONOVAN. Congressman, there is no question that the levels of the administrative fees in the last few years, and particularly in 2012, are a real threat to the program. And, in fact, something I never thought I would see, we had two housing authorities that turned back HUD–VASH vouchers, Akron and Milwaukee, and just since January, we have had 18 housing authorities that have made the decision to give up their broader Section 8 Voucher Program, so just since January, 18 agencies because they simply do not think that they can run the programs given the level of administrative fees.

As you know, the proration in 2012 was about 74 percent of what the estimate is of the full need to run those programs. Even in a very, very difficult budget year, we made the decision to add over $200 million to the administrative fees. We would not have done that had we not thought there was a real risk of serving fewer families of housing authorities giving up their programs with the low level of admin fees. Even with the increases that we are proposing, we would still only be at 81 percent proration of admin fees. So, this is something that we are very concerned about, enough so that in a very, very difficult year, we proposed more than $200 million increase and we think that is the minimum necessary to be able to make sure that housing authorities have adequate funds to be able to even tread water, much less improve their programs.

VASH PROGRAM

Mr. OLVER. I, of course, am particularly concerned about examples of the turn back of VASH vouchers, but you are suggesting that there are other more recent, since the 1st of the year are not just VASH, that there are other resource requiring programs that are also suffering. Which are those other programs coming from? Which of those other resource needful programs that are now, you think, threatened?

Secretary DONOVAN. Well, these 18 housing authorities since January did not just turn back VASH vouchers. They decided to give up their entire——

Mr. OLVER. Prior program.

Secretary DONOVAN [continuing]. Voucher programs.

Mr. OLVER. Entire program.

Secretary DONOVAN. And, again, these admin fees I am speaking about are just for the voucher program. So, they have given up their entire programs since January, 18 of them.

Mr. OLVER. Is there a difference between 202s and 811s?

Secretary DONOVAN. 202s and 811s are funded through separate contracts through multifamily and do not have a separate administrative fee associated with.

Mr. OLVER. Are you doing a study of the fees? Is there an administrative study being done? What is the status of that?

Secretary DONOVAN. Well, we do have a very extensive study that is underway. It will not be fully completed in time for the budget process in 2013. We do have initial results though that will be coming over the next months that we would be happy to share with the committee that might help to inform decisions about the admin fee funding for next year.

Mr. OLVER. You mentioned Milwaukee and another place. Was it Asheville?

Secretary DONOVAN. Akron.

Mr. OLVER. Akron.

Secretary DONOVAN. Akron, Ohio.

Mr. OLVER. Milwaukee. I have not heard a list of the 18——

Secretary DONOVAN. The 18.

Mr. OLVER [continuing]. Since the 1st of the year that have gone beyond just VASHs and decided to go all the way here.

Secretary DONOVAN. Well, we would be happy to provide that to you and the committee.

Mr. OLVER. All right. And the study, you say, will not be done for how long again?

Secretary DONOVAN. Let me get the exact date. If you give me a minute, we will give you the exact date on the expectation.

Mr. OLVER. Well, at some point, you can tell me. I am ready to yield back.

Mr. LATHAM. That is amazing. The gentleman from North Carolina, Mr. Price. Welcome.

HUD FUNDING LEVELS

Mr. PRICE. Thank you, Mr. Chairman. I apologize for my late arrival. It is due, as you might guess, to another hearing, another subcommittee. So, I will consolidate my questions.

I understand we want to make this the last round and I think I can do that. But it is a challenge because there is so much in this budget that is really going to stretch and strain the agencies and the programs that we have counted on. One size does not fit all in housing, and whether we are looking at the HOME program or public housing or Section 8, there are a range of approaches here and all of them are under a good deal of financial duress, some more than others though. So, I want to ask you about three programs that have been very important in my district and just ask you what is going on and what kind of assurance you can offer.

I am sure I am not the first to mention the Community Development Block Grants, but you have essentially flat-lined both CDBG and HOME. The HOME Program has been particularly useful to promote home ownership. In a district like mine, you can imagine this is a program we have taken full advantage of. You are flat-lining both of these successful programs or programs that I think most people would regard as great successes.

I know you are dealing with the Budget Control Act and it looks like the budget we are getting now is going to reduce that allocation even further, which is not good news by any means and for housing in particular. So, you do have these constraints, and is that what is going on here or is there some sort of trend here where the department is going to continue to deemphasize CDBG and HOME in particular? Is there something you need to tell us about your assessment of those programs in particular?

And then finally, I come to you once again as a champion of HOPE VI or as a witness to what HOPE VI has achieved in my district. We have had model HOPE VI Programs, on time, on budget, taking these devastated neighborhoods like no other housing community development program can do and has developed large areas in a very significant way that has simply turned around significant portions of the cities of Raleigh and Durham. I know Choice Neighborhoods is supposed to be the new HOPE VI, just take up the banner there, but that has been funded at a very low level: 5 implementation grants, I understand, last year; 30 planning grants. I wonder what you can say about where those awards have gone, to what extent it is indeed supplanting HOPE VI or to what extent the kind of emphasis we used to have in HOPE VI, the kind of awards you were able to make are simply now not being granted.

Secretary DONOVAN. Congressman, I would say on all three programs that you mentioned—CDBG, HOME, and Choice Neighborhoods or HOPE VI—we certainly see Choice Neighborhoods as a successor that builds on the great success that HOPE VI had. In all of those cases, in a different budget environment, we would clearly think there is reason to fund them at a higher level. And, in fact, these are three of the programs that dollar for dollar are the best job-creators available. And the only reason that they are not funded at a higher level is that in a world where 83 percent of our budget goes to renew just existing units, and we have pressures of lower incomes for those families and inflation, it makes it very difficult to maintain the other investments that invest in new projects, and that really is the challenge, but we would clearly support higher levels.

What I would say on Choice Neighborhoods in particular is that with just the five implementation grants that we have provided so far—and I would make the point one of the concerns I think you had and others had was would this deemphasize the renewal of public housing by moving to Choice Neighborhoods? And, in fact, what we have seen is that public housing has continued to be the very centerpiece of what Choice Neighborhoods is doing with over 75 percent of the winners, including housing authorities and public housing as the focus of what they are doing. So, I think we have kept our promise on that.

And one thing I would point out, just those 5 implementation grants, we wish there were more, but just those 5 have leveraged from our awards 13 times the funding that we awarded in private capital to create jobs, to do construction to rebuild those neighborhoods. So, when I say dollar for dollar, these are some of the most powerful job creators, they leverage private sector funds in a way that is really remarkable, 13 times our investment in terms of the scale of private capital that is coming into just these 5 projects that we have awarded.

Mr. PRICE. Well, both of those points are impressive about the leverage and also the public housing.

Mr. Chairman, I would ask at this point in the record if the Secretary could furnish the list of those awards for the current year and any assessment he wishes to make about the marginal difference, the difference at the margins, that the substitution of Choice Neighborhoods for HOPE VI. I know there are some reasons for that.

Secretary DONOVAN. Yes.

Mr. PRICE. I would like to have your assessment of what kind of difference that, in fact, has made on the ground. Thank you.

TRIBAL TECHNICAL ASSISTANCE

Mr. LATHAM. Mr. Secretary, I am glad to see the department is working with Native American Tribes to reduce large backlog of block grant funds. We continue to hear from tribes that specialized technical assistance is greatly appreciated, much needed. What are you doing, any innovation to improve the assistance for the tribes as far as the technical assistance to advance their projects?

Secretary DONOVAN. Yes. One thing I would just say is to say thank you for the flexibility the committee has given us to improve our technical assistance through the Transformation Initiative, and I really do think that is making a real difference.

I think one of the most important things we can do not just for Native American Tribes, but also, more broadly, is to continue to focus our efforts around rural communities.

What we have seen and one of the many things I have heard from many of the tribes initially when we came in was that we needed to speed up and improve our funding processes. We have been able to cut by 82 percent the time it takes to get our NOFAs out. So, an 82 percent reduction in time I think has made a real difference in getting the money to where it is needed more quickly across the board. Housing counseling was an area you were very focused on last year, where we made real improvement. Choice Neighborhoods, we already have our awards, our NOFA out. But

specifically targeting in other programs to smaller communities, rural communities has made a real difference for tribes.

I would give you an example of our Rural Innovation Fund, where tribes did very well because of the technical assistance that we provided. Another area, sustainable communities, the committee made sure that we had a set aside for smaller places. We actually went beyond that and had a set aside for even smaller places that has made sure that over 50 percent of the winners in that program are rural communities and in particular Native American communities have done very well. One example, the first ever zoning code that has ever been implemented on tribal lands for this tribe was able to be funded through a Sustainable Communities Grant. So, making them eligible for the broader range of programs has been one of the best results I think of this technical assistance.

Mr. LATHAM. I know there is some concern with folding the tribal technical assistance in with the Transformation Initiative, concern about that, and I do not know if we need to talk about it, or you need to respond.

The Navajo Tribe says they plan to accelerate their spend-out, nearly 110 million over each of the next 3 years. But then they received 90 million, so they are actually only going to—they have got a $450 million backlog, but they are only reducing that by about 60 million. I do not know if you can work more closely with them to help them as far as——

Secretary DONOVAN. That has been a particular issue as you know, that we have worked with them on. I know we have talked to the committee about what I would say is the concern about the set-aside for technical assistance. As we have moved with the cooperation of the committee towards this Transformation Initiative model, we have flexibly made available up to half a percent in our budget that could be transferred to The Transformation Initiative.

That is something where we have come back to the committee for approval each year of how we are using it. And so I would say if it is a focus for the committee to make sure there is technical assistance funding available as it is for us, for Native American activities, that that is absolutely something that we would prioritize there and we would want to work with you on making sure there is funding for.

IT FUNDING

Mr. LATHAM. I may run a little over here, if that is all right. And then this will be my last round if we could do that, okay? Thank you, Mr. Olver.

Well, you have kind of gone to what my next question was going to be. Over the past couple of years you have sought authority to skim about a half or 1 percent off various appropriated accounts and use them for the Transformation Initiative with the goal of transforming HUD.

This is your fourth budget and while we can understand some need for flexibility early in the process, I would think that by now you should kind of know where your funds are going to be needed to actually ask for appropriated funds. In quoting from your budget it says, "Given the time between the formulation of HUD's budget

and its passage, new information needs to be identified as current projects progress and policy issues develop with input from across the department, Congress, and outside experts and stakeholders."

You are telling me that the Department that oftentimes takes 365 days to get out the NOFA, you cannot plan ahead that far to ask for appropriated funds rather than just moving—it is like $200 million you are asking to move around.

Secretary DONOVAN. So, first of all, I would say I am glad to report it no longer takes us 365 days to get those NOFAs out. We did reduce that time by 82 percent, so a big accomplishment. And part of that, frankly, was through the Transformation Initiative, the investment that we have made in technology. To be frank, what I would just say here is, in the private sector, in the public sector, I think there is no question that we do not know everything that is going to be needed. The exact amount that is ultimately going to be required in technical assistance, up to a year and a half in advance.

Mr. LATHAM. Why are you unique to everybody else in government?

Secretary DONOVAN. Frankly, this is an area where OMB and the administration believe it could be a model, and this kind of flexibility would be useful in other places as well. What we are trying to make sure of is in a program like the voucher program or others that—where we propose this, that having a set amount that would be transferred is—I think all of us would say is a less smart way to go than to have the flexibility to say if it is not needed this year, if a budget comes in below—or project comes in below budget, if the technical assistance because the market shifts in FHA we are doing less volume than we expected, to keep that money in the core programs might be a better approach rather than having it sit and not go used to help the families that I think we all want to help.

And so that flexibility really goes to benefit our programs by saying it is up to a certain amount that could go to these uses, but if it turns out that it is not needed or that full amount is not required because of changes that we could not have anticipated a year in advance, the money stays within the programs to be used to help more families or to make the programs more effective.

That is really the flexibility we are talking about. And I do not think we will ever get to a point where our planning is going to be perfect enough where a year in advance we are going to know, you know, down to the dollar. These are relatively small amounts in our budget overall. Exactly what the timing is going to be on these——

Mr. LATHAM. You can always come back the committee and ask to reprogram. But, I mean, it is unique to your department. I think we all get nervous when we see people have the ability without any kind of oversight to basically move money around.

You are talking—I mean, 200 million bucks—of funds sitting there that you can play with. You know, and I do not know why it is not possible, like in the IT funding to, you know, to have that go into the working capital fund to——

Secretary DONOVAN. Let me give you an example. And I would say, Mr. Chairman, I——

Mr. LATHAM. We were here.

Secretary DONOVAN. I hope you believe we have—you have seen that we have worked very closely with you. We come back, we need your approval to use the money in that account, but let me just give you an example. Last week we had a meeting on our major effort with—this committee has been very supportive of, to restructure our financial systems at HUD.

And as can often happen with a very large system investment, there were some issues that came up that made us step back and re-think—should we re-think the timing of the way this rolls out, and to phase certain pieces differently than we might have expected. That might have a real impact on what the spending would be this year in real time for this.

Not something we ever could have anticipated, and I think the flexibility that—particularly on these types of projects, technical assistance, research and demonstrations, and particularly IT, is a benefit to both of us as long as we remain in very good communication, which I hope you would agree we have on this.

Again, I would use a private sector example. This is the—in my mind, more of the way a private sector organization would be able to operate to be flexible in real time on being able to do this. I would not say we are perfect yet on that or that we have reached where I would want to get as an organization, but I think the Transformation Initiative has made a real difference in helping us get there.

Mr. LATHAM. Thank you very much. I apologize, Mr. Olver, for running over, but if you have a question——

HOUSING COUNSELING

Mr. OLVER. We have had discussions around HUD's Housing Counseling Program several times over the last several years. In any case, the 2012 bill set an ambitious deadline for awarding those grants within the 120-day period. And last week I was pleased to see that HUD actually had met that deadline and awarded within the 120-day period, another fast movement here.

Just a few years ago, that kind of a 120-day turnaround would have been a long stretch, so I commend you for that. I know you set up a formal proposal to the committee which requires committee consideration on both sides of the Congress and approval for reorganization of the Housing Counseling, and it is under consideration.

But I would like to know, in the meantime, what changes have you made in the Housing Counseling Program?

Secretary DONOVAN. Congressman, let me just say, I do have the information on the admin fee study that you asked about. It will be completed in 2013, but in July we should have the first findings available. And so we look forward to being able to present that to the committee over the summer as we see those results come back.

Mr. OLVER. That would be good.

Secretary DONOVAN. Specifically on housing counseling, there are a number of changes that we made that allowed us to get this money out dramatically faster than we had in the past. First of all, and I will say, we heard very clearly from the committee that this was one of the reasons that it was not funded in 2011 and that it was important that we move more swiftly. We actually drafted and

put together the NOFA in advance of the committee appropriating the money so that we were ready to go right away.

Mr. OLVER. You actually assumed that the committee——

Secretary DONOVAN. No, we did not.

Mr. OLVER [continuing]. That we would finally de-fund that money?

Secretary DONOVAN. We just wanted to make sure that——

Mr. OLVER. Okay.

Secretary DONOVAN [continuing]. If you chose to fund it, that we were ready to go. We thought that work was worth the risk that you might make a different decision.

Second, we have reorganized our whole clearance process of how we have the different parts of the agency work together to streamline the approval processes, and we have also radically transformed the way we do funds control to simplify it and speed up getting those grants approved and out there.

And then finally, I do think these changes in the office structure are very important. When we looked at it, I think the committee had a very reasonable concern that the way that we had organized our Housing Counseling Function was not ideal. And that lead to the reorganization that we have presented to the committee, and we look forward to working with you on it.

Mr. OLVER. Does that process that you have described also include the stakeholders, the people out there in the field who have to actually produce the counseling?

Secretary DONOVAN. I will tell you, we had a series of meetings with our stakeholders. When we went and told them not to get too much in the weeds here, that we were eliminating our old logic model in the way that the NOFAs were done, we got a standing ovation. So this very much was a collaborative process with our Housing Counseling Organizations.

Mr. OLVER. Thank you very much., Mr. Chairman.

Mr. LATHAM. Thank you, Mr. Olver. Mr. Price.

REDUCTIONS IN HUD'S BUDGET REQUEST

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, as we close out here, let me return to the broader question I was raising earlier having to do with your overall allocation. As you know, The Budget Control Act last year set discretionary spending for fiscal 2013 at $1.047 trillion. That agreement is now being breached with the House Budget Resolution which is coming in at 1.028 trillion.

And, of course, even lower numbers have been bandied about and debated.

So I want to ask you, you have testified already that the very austere allocation you have been working with in putting this budget together have led you to do such things as flat-line CDBG and HOME and you have acknowledged readily that that is not what you really want to do or think represents the best of the best policy approach.

Choice Neighborhoods is another program that is being squeezed. That is a very minimal program compared to what many of us think it should be and what it has been at some points in the past. Now you are talking maybe here about tentative and project based

Section 8 as well or public housing capital and operating expenses, just the whole array of departmental needs.

Can you tell us, is there slack in this budget that we are missing somewhere? I mean, what is the implication for cuts even of the sort we are seeing in the House Budget Resolution? What our subcommittee's likely share of that is going to be? What implications do you see and to the extent you want to comment more generally on the challenge of preserving our housing stock or for that matter, keeping economic recovery going? What would you say?

Secretary DONOVAN. So just to be very specific about the budget proposal, assuming that it would lead to a 22 percent reduction in the allocation to HUD, our estimate is that it would lead to over a million families losing their housing. Specifically, 585,000 families in the Voucher Program; 425,000 families in the Project Based Section 8 Program; between 110- and 180,000 people in our homeless programs who would end up back on the streets, and those are just the core housing programs.

You talked earlier about CDBG and HOME. CDBG alone that estimate—that level of cut we estimate would lead to the loss of almost 17,000 jobs just for the one year of the budget that we are talking about, and tens of thousands of new units of housing that would not be built as a result of the HOME reduction. So those are a few estimates to be specific about what that proposed cut would lead to.

Mr. PRICE. And that is at the 22 percent level, which as I understand it is at the high end of the cuts being contemplated or discussed.

Secretary DONOVAN. That is correct.

Mr. PRICE. But even if something like what the House Budget Resolution puts forward is enacted and we get our share of that, I mean, it really is an important question, what our share of that is and what this subcommittee is going to be dealing with. Because presumably the numbers you cite would be or some fraction of those numbers would be the result of almost any reduction from an already austere allocation level.

Secretary DONOVAN. That is right. Given the choices that we made around the Project-Based Section 8 Program, minimum rents, other very, very difficult decisions, additional cuts would result in families not being able to keep their housing.

Mr. PRICE. Thank you. Thank you, Mr. Chairman.

Mr. LATHAM. I thank the gentlemen. Do you have any more further questions? If not, I think we will conclude the hearing.

I will have some questions certainly to ask you for the record. One, I know there is real concern with some property and casualty insurance companies with some new regulations coming down, their ability to continue to offer those coverages. We will get more details and the question to you on that.

But I just publically want to thank you for the communication and the cooperation. You are a great partner to work with, and I admire you very much in a very tough job there.

Secretary DONOVAN. Thank you, Mr. Chairman. And I feel very much the same way. Both you and I would compliment your team. You have worked very, very collaboratively with us and I appre-

ciate it. And want to say thank you to Mr. Olver for his service once again.

Mr. LATHAM. The last time. Anyway, with that we will conclude the hearing.

Secretary DONOVAN. Thank you.

Mr. LATHAM. Thank you.

Mr. Latham #1

New Programs and Program Terminations

Question: Please provide a list of new programs and terminations in the FY 2013 budget. Please list the program, the FY 2012 amount, and the FY 2013 request.

Answer: Below is a table of the new programs and terminations in the FY 2013 Budget.

List of New FY 2013 Programs

List of New Programs	Amount requested in FY 2013	Notes
Family Self-Sufficiency (FSS)	$60 Million	Making FSS a separate program, consolidating from TBRA and Public Housing
Jobs Plus	Up to $50 Million	Part of Public Housing Capital Fund
Sustainable Communities	$100 Million	Funded in FYs 2010-2011
Housing Trust Fund	$1,000 Million	Mandatory Account

List of Programs Terminated in the 2013 Budget

List of Programs Terminated	Amount Appropriated in FY 2012	Notes
Self-Help Opportunity Program (SHOP)	$53.5 Million	Capacity Building remains as part of Community Development Fund
Resident Opportunities and Supportive Services (ROSS)	$50 Million	Part of new, separate FSS program
Lead Hazard Reduction Demonstration	$45 Million	Activity included in Lead Hazard Reduction Program

Mr. Latham #2

Programs Not Authorized By Law

Question: Please update the table on page 214 of H. Report 111-218 for HUD programs (programs not authorized by law).

Answer: The table on pages 214-215 of House Report 111-218 should be amended and updated as follows:

Strike the two lines on Native American Housing Block Grants and the line on Federal Guarantees.
Strike the line on Rural Housing and Economic Development.
Strike the line on Economic Development Initiatives.
Strike the line on Neighborhood Initiatives.
Strike the line on Downpayment Assistance Initiative.
Revise the HOPE VI line by: (1) striking "HOPE VI" and inserting "Choice Neighborhoods Initiative", (2) striking "2007", and inserting "2012" and (3) striking "99,000" and inserting "120,000".
Strike the line on Brownfields and on the next line strike the word "Redevelopment".
After Self-Help Homeownership Opportunity Program, add a line for Homeless Assistance with the following information: 2011, SSAN, 1,905,000.
Strike the line on National Housing Development Corporation.
After Salaries and Expenses, add a line for Transformation Initiative.

Mr. Latham #3

HUD's Budget Formulation Process

Question: Please explain how HUD formulates its budget. Does HUD build its budget from the bottom up or only based on new initiatives? Please describe the process how every office and function within HUD is analyzed for its needs and costs.

Answer: HUD's budget formulation process can differ from year-to-year, but generally follows certain repeatable approaches. It is both bottom-up and top-down in that there is widespread and deep participation by all program offices accumulating the expertise of the principal leadership as well as program experts and technicians. This process is of course highly influenced by the direction and leadership of the Secretary.

Furthermore, top-down guidance is provided by the White House and the Office of Management and Budget in terms of overall budgetary resources as well as program priorities inclusive of new presidential initiatives. Both the Department and the Administration also take cognizance of Congressional budget actions, proposals, and stated priorities involving the Department.

During the prioritization process, HUD reviews low priority programs that may no longer support the Department's mission or are viewed as ineffective. In addition, HUD carefully analyzes the internal budget pressures of our core programs. The Department's rental assistance programs constitute approximately 70 percent of the total budget. Preserving existing units (renewals) is a key objective, which places additional pressures on other programs including new initiatives, and therefore, requires careful prioritization. For all of HUD's programs, a key element in budget decision-making is acknowledging the factors that are often beyond the control of the Department that determine budget decisions including inflation and macro-economic conditions. These factors are particularly important for the Tenant-Based Rental Assistance, Project-Based Rental Assistance, and Public Housing Operating Fund programs, as well as all efforts to provide an urban policy that meets the needs of communities in distress.

As part of the effort to match budget resources, mission objectives, and program priorities, the Department focuses on key activities that have become prominent each year. In recent years, these included the expansion of Federal Housing Administration Single Family and Multifamily activity in response to the mortgage crisis and unavailability of sufficient private capital resources. Another key example is the effort under the President's Federal Strategic Plan to Prevent and End Homelessness reflected by an expanded homeless request including key investment VASH vouchers through the joint HUD-VA interagency partnership. The President and the Department have also pursued key initiatives including Sustainable Communities, Choice Neighborhoods, and the Rental Assistance Demonstration. Initiatives are important to provide real change, innovation and progress through our housing and urban programs, but do not singularly drive the budget process.

The Salaries and Expenses (S&E) component of HUD's Budget traditionally has been developed with a workload-driven approach, using analysis from the Department's Resource Estimation and Allocation Process (REAP) and Total Estimation and Allocation Mechanism (TEAM) systems. However, the traditional S&E analysis did not necessarily tie S&E analysis into program funding decisions. During the FY 2014 Budget process, there is a more focused attempt to integrate all variables, including program funds, S&E, and Working Capital Fund into the decision-making process and future budget submissions. This approach will provide the Department's leadership with improved information to make decisions during the budget formulation process.

Mr. Latham #4

Productivity or Program Efficiencies

Question: Please describe how the request identifies productivity or program efficiencies to the base programs in this year's request. Please provide specific examples for each program office.

Answer: HUD has put forth many proposals in our FY 2013 request that will provide greater efficiencies in our programs. Below are the HUD proposals submitted in the FY 2013 Budget request, organized by program office.

ALL RENTAL ASSISTANCE PROGRAMS

The costs of all of HUD's rental assistance programs—Tenant-Based Rental Assistance (TBRA), Project-Based Rental Assistance (PBRA), Rental Housing for the Elderly and Persons with Disabilities, and Public Housing— are rising. HUD is seeking to reduce administrative burdens and increase efficiencies in these programs, which is critical in our current fiscal environment of decreased administrative fee funding levels. The below reforms are among the changes to HUD's rental programs in the Affordable Housing and Self-Sufficiency Improvement Act of 2012. All cost savings data assumed bill implementation in the FY 2013 Budget.

- *Income targeting*: Extremely low-income (ELI) is newly defined as the higher of either the poverty guidelines provided by the Department of Health and Human Services or 30 percent of the median family income for the area adjusted for the applicable family size. The Housing Act requires PHAs and owners to target ELI households as a significant share of new admissions annually. In the Housing Choice Vouchers (HCV) program, 78 percent of new families served each year by an agency must be extremely low-income. The proposed statutory change would save an estimated $121 million for HUD's rental programs in FY 2013. The effect of the proposed change is to ensure that a greater number working poor families may be eligible for housing assistance. It increases the average income and average family contribution for each program, thereby allowing HUD to serve additional families with fewer resources.

- *Minimum Rent (TBRA)*: Given the increase in fair market rents, the Department is proposing to increase in statute the minimum rent from as little as $0 to $75 (with current hardship exemptions). This proposal would produce a savings of $152 million. Requiring the minimum rent to increase to $75 per month would make it comparable to minimum rent ceiling of $50 enacted in 1998, adjusted for inflation. This change also increases the average family contribution and allows HUD to serve more families across TBRA, PBRA, and public housing with fewer resources.

- *Medical Deduction*: HUD proposes to statutorily increase the threshold for deducting medical, attendant care, and auxiliary aid expenses to expenses that exceed 10 percent of income. Current law sets this threshold at 3 percent of income. This change will reduce the extent to which HUD pays indirectly for tenants' medical expenses while still providing a safety net for families facing extraordinary medical expenses. This change is

anticipated to save $165 million in HUD's rental programs in 2013. This will limit the deduction for medical expenses to those families that have excessive medical expenses, which will reduce the paperwork required by average tenants to process annual certifications. It will also reduce the administrative costs for PHAs in keeping these records and trying to calculate tenant medical expenses.

- *Establish a Floor for Flat Rents*: This statutory proposal would establish a floor for flat rents at 80 percent of the applicable fair market value. The intent is to require PHAs that employ flat rents to set them closer to comparable market levels. Rent increases for families would be phased in such that no family's rental payment will increase by more than 35 percent in any 1 year as a result of enactment of this provision. This proposal will save HUD approximately $150 million.

PUBLIC AND INDIAN HOUSING

Program Rules Change: Frequency of HQS inspections

HUD proposes a change in the statute to revise the requirement for annual housing quality standard inspections of dwelling units. Under current law, HCV units must be inspected on an annual basis, regardless of whether such units have a record of regular compliance to HQS standards. Inspecting every single unit is the most expensive form of quality control, since a unit inspection requires the cooperation of both the resident and the landlord with the inspector. Under HUD's proposal, PHAs would be required to inspect each unit at least once every 2 years. This provision would reduce both the administrative and financial burden on PHAs. PHAs would be able to vary the frequency of their inspections across the program, allowing the PHA to concentrate their inspection resources on the more marginal and higher-risk units. This has proven to be a successful model at several Moving-To-Work (MTW) PHAs. Residents will still retain their right to request inspections and are encouraged to alert the PHA if they believe there are problems with their units. In addition, PHAs will be able to satisfy inspection requirements through alternative standards if they are established by other Federal housing programs, such as HOME Investment Partnerships and Low-Income Housing Tax Credit programs. Decreasing the burden on landlords would encourage greater landlord participation and ultimately, provide more options for families.

Cross-cutting proposals (Housing Choice Vouchers and Public Housing)

- *Operating/Capital Fund Flexibility*: The Administration proposes to provide full flexibility of Operating and Capital funds for all PHAs combining the separate Operating Fund and Capital Fund programs into a single Public Housing subsidy stream. Efficiencies and productivity will be gained by making Operating and Capital funds fungible under all eligible uses for both accounts. This is an effort by the Department to bring PHAs more in line with the real estate industry practice of having one funding stream for both operating and management and development activities.

- *Consortia*: The Department seeks to amend the definition of a "public housing PHA" to include a "consortium of PHAs." Currently, there is no statutory provision for PHAs to

form consortia for the purposes of administering Public Housing programs, as there is currently for tenant-based assistance. Changing the definition to include a "consortium of PHAs" will benefit PHAs that combine operations by reducing their administrative costs and achieving operating efficiencies. Housing Authorities will benefit from being able to share best practices and pool resources in order to more efficiently administer the HCV and/or Public Housing programs.

Changes to Funding Rules

- *Flexibility of Resident Supportive Services under the Operating Fund, Capital Fund, and Section 8 Housing Choice Voucher Administrative Fee (HCV, Public Housing)*: In this tight economic environment, it is critical that PHAs, including MTW PHAs, have flexibility in order to meet the needs of their resident communities. While it is necessary for HUD and PHAs to focus their resources on housing, it is also HUD's responsibility to ensure that public housing and Section 8 Housing Choice Voucher families have access to the necessary resources that will help them become self-sufficient or, in the case of elderly or people with disabilities, to remain successfully housed. The best way to ensure that families remain successfully housed, and ultimately obtain non-Federally assisted housing where possible, is to ensure that all public housing and Section 8 Housing Choice voucher residents are connected to the appropriate support systems in their communities.

  In order to provide PHAs with much-needed flexibility so that they can use housing as a platform for improving the quality of life for their public housing and Section 8 Housing Choice voucher families, HUD is asking for a statutory change to provide PHAs with the authority to create the Consolidated Opportunities for Resident Enrichment (CORE) flexibility. This flexibility, which is a consolidated fund of a certain percentage, to be determined by the Secretary, of the assistance received under each of the Operating Fund, Capital Fund, and Section 8 Housing Choice Voucher administrative fees for resident supportive service purposes such as service coordination, case management, direct services where the communities lack them, administration of service programs and including but not limited to eligible resident supportive and self-sufficiency service activities.

  This consolidated approach provides PHAs with flexibility to address the specific needs of the residents in their communities. As a result, PHAs would be better equipped to promote positive resident outcomes related to education, health, economic security and self-sufficiency, and safety. It streamlines how both HUD and the PHAs operate, as it does not require a burdensome competition and enables PHAs to have a consolidated approach to resident services for all of its residents.

- *Consolidated Funding for Family Self-Sufficiency (FSS) Coordinators*: In addition to CORE, the Department requests the statuory authority to combine the funding for Public Housing and Housing Choice Voucher FSS program coordinators into a single account, which will result in program streamlining and will permit coordinators to provide better

and more uniform services for families assisted through both the Public Housing and Housing Choice Voucher programs.

Rental Assistance Demonstration

The budget proposal requests that Congress lift the 60,000 unit cap imposed on Moderate Rehabilitation (MR) units involved it the Rental Assistance Demonstration. Currently, the MR program renews units on an annual basis, making it difficult for owner to receive the financing necessary to complete repairs. By removing MR units from the 60,000 unit cap, HUD will encourage owners to convert to mainstream project-based rental assistance (PBRA) or project-based vouchers (PBVs), getting the benefit of the larger organizational infrastructure of these mainline programs. There is no cost for HUD to exempt MR units from the 60,000 unit cap because these projects are converting at current funding and HUD would otherwise be rolling over their annual contracts under MR.

Office of Native American Programs (ONAP)

- *The Authority to Increase the Upfront Guarantee Fee from 1% to a Maximum of 3%*: The Department proposes refinements to the authorizing statute for the Section 184 program. The demand for this program has outpaced the current statutory framework. Currently, the Section 184 statute allows for the collection of a one-time guarantee fee of 1 percent that the program is allowed to assess on all loans. This restriction greatly limits the program's ability to build capital reserves to pay losses. This statutory amendment would help shift the risk away from the program and towards the beneficiaries of the guarantee.

- *The Authority to Establish and Collect Annual Premium Payments*: The Department proposes the collection of an annual premium payment to better protect against losses, and help bring the Section 184 program in line with other benchmark programs such as FHA and USDA while at the same time ensuring that there can be a steady flow of mortgage capital in Indian Country. This statutory measure supports a self-sustaining funding model that is more efficient and less dependent on the Federal appropriations process to operate.

- *Automation of the Section 184 program*: The program office continues the transition process from a paper based product to full automation. The key technology conversions include: data collection and conversion for the purpose of data mining and analysis; applying data to create a more robust credit subsidy model that accurately measures and quantifies the risks associated with the Section 184 program; continue customizing the Computerized Homes Underwriting Management System (CHUMS) with Section 184 program characteristics; and procure rights to a mortgage origination platform that is compatible to industry standards and to facilitate the transition to a paperless application process. This transformation will enable ONAP and PIH to improve accuracy and gain efficiencies by standardizing reporting formats for loan servicing and provide a more streamlined process for lenders. As part of the 2013 Budget request, HUD has set aside $1 million to assist in these efforts.

- *ONAP Training and Technical Assistance* (T&TA): T&TA program provides training and technical assistance to tribes/TDHEs that are eligible to receive an Indian Housing Block Grant (IHBG) and IHBG sub-recipients as well to DHHL and Native Hawaiian Housing Block Grant (NHHBG) sub-recipients (collectively "T&TA beneficiaries"). HUD will compete these funds to national and regional organizations under a Notice of Funding Availability (NOFA). This NOFA is presently being drafted, so that once the Technical Assistance Plan is approved by Congress and funds become available, the NOFA can be published at the earliest possible time. This new process will enable HUD to respond more quickly to specific assistance needs of a tribe rather than having a tribe waiting for an HUD-sponsored training. This will result in timely delivery of assistance, bring improvement in the process and create program efficiencies. Until such time as the NOFA is published and technical assistance funds are awarded, HUD has procured a dedicated tribal technical assistance package that will bring immediate support to tribes and TDHEs in the areas of financial management, capacity building and construction/procurement.

Studies and Research

- *Rent demonstrations and promotion of innovative practices at participating PHAs*: This statutory provision allows PHAs to promote innovative practices with respect to increasing tenant incomes or generating energy savings and sharing those savings with residents. This provision will permit the Department to also test different concepts that may lead to program cost savings and efficiencies with respect to utility costs.

- *Administrative Fee Study*: HUD has undertaken a comprehensive time-and-motion study to determine the actual cost to administer an effective and efficient HCV program. The purpose of the study is to evaluate high-performing and efficient PHAs and develop an appropriate fee methodology that adequately reflects the operational costs. Results from this study will allow HUD to allocate administrative fees more efficiently to PHAs.

- *Small Area FMR Demonstration*: The Fair Market Rent (FMR) is the basis for determining the maximum monthly subsidy for an assisted family. Currently a single FMR is calculated throughout a nonmetropolitan county or a metropolitan area, which is generally comprised of several metropolitan counties. HUD expects that calculating FMRs at a smaller geography within metropolitan areas (non-metropolitan counties will continue to have one countywide FMR) will provide voucher tenants in some areas with greater ability to move into opportunity areas, where jobs, transportation and educational opportunities exist. It will also impact other areas where HUD may be over subsidizing since the current FMR is higher than prevailing rents. This demonstration will collect and report overall program cost implications, additional administrative burdens, and tenant data to determine the extent to which tenants are using the expanded set of payment standards to move into opportunity areas.

Next Generation Management System

The Next Generation Management System (NGMS) is a comprehensive development plan to improve the business processes for administering the HCV program. The primary goal of this project is to build a system with an appropriate and useful set of tools to manage and administer the program.

NGMS will fundamentally improve the business performance of HUD's rental assistance programs over several years. Based on the recommendations from the HUDwide rental assistance blueprint, this project will assist the Department in improving automated tracking controls across the full line of HCV business processes. It will also allow HUD to implement cash management requirements efficiently and effectively by eliminating manual processes and streamlining funding allocations, disbursements and reconciliations. By aligning current and future HCV processes, HUD aims to simplify business operations and maximize investment returns for the Department with business-driven, service-oriented solutions that employ shared and standardized technology (which will reinforce its monitoring systems to detect waste, fraud and abuse). HUD has completed the "as is" and the "to be" phase of development and is in the process of development and implementing business requirements and recommended solutions.

Optimization Tool

HUD monitors PHAs primarily by reviewing their leasing rate and spending of housing assistance payments throughout the year. The Optimization Tool assists PHAs in projecting the level of funding necessary to maintain certain leasing rates and to take into account factors such as attrition, PHA reserves, and new vouchers awarded to the PHA. This optimization tool also plays a key role in the prevention of funding shortfalls and the stabilization of program operations. A successful voucher program is one in which the PHA is able to optimize their leasing within the budget authority provided while making administrative decisions based on local community needs and priorities. HUD is actively working with PHAs in order to assist them in moving into and/or staying within this optimal zone of program management.

COMMUNITY PLANNING AND DEVELOPMENT

Improved Consolidated Plans

All state and local governments that participate in one of the CPD Grant Programs (Community Development Block Grants, HOME Investment Partnerships, Emergency Solution Grants, and Housing Opportunities for Persons with AIDS must complete a Consolidated Plan. The improvements to the Consolidated Plan process released on May 7, 2012, will greatly enhance the ability of grantees to target to specific local community development needs. These improvements, known as the eCon Planning Suite, will provide communities with 21st century data and technology tools to help ensure that scarce Federal dollars are targeted to where they are needed most and can achieve the biggest impact. The eCon Planning Suite is comprised of three components: an expanded planning database; a powerful new mapping tool, CPD Maps; and an electronic template for submitting the Consolidated Plan.

CPD Maps will allow cities, counties and states to access expanded planning data that will not only help them visualize where they have made Federal investments in the past, but will guide them on where to focus their energies in the future down to the Census tract level. In

addition, the public will be able to draw on this powerful new mapping tool to argue for public investments in particular neighborhoods. The online Consolidated Plan template is designed to guide grantees through an intuitive planning process driven by the same data the public can access in *CPD Maps*. Completed plans will be posted on HUD's website in a standard format to allow grantees and the public to compare plans and identify best practices. This collection will form a national library of Consolidated Plans, creating a single place online to read about other local strategies and best practices.

Sponsor-Basing of Homeless Families

Households experiencing homelessness face multiple barriers to obtaining stable housing and often utilize expensive taxpayer-funded emergency systems until adequate housing is identified. Many of these families need support beyond housing, support that PHAs cannot provide. In the 2013 Budget, HUD requests statutory authority to allow PHAs to Section 8 funds to assist homeless families through a private nonprofit sponsor. Unlike the existing tenant-based or project-based Section 8 program, in a sponsor-based program an experienced nonprofit homeless services provider holds the rental assistance voucher and is able to either lease a unit on behalf of the tenant or work directly with them and the landlord to help facilitate lease-up. This structure immediately creates program efficiencies by assisting the tenant in identifying suitable housing, reducing lease-up time, overcoming barriers to landlord acceptance (i.e., due to poor rental history), and efficiently and effectively aligning services and housing.

HOUSING

Administration of Project-Based Rental Assistance Programs

The FY 2013 Budget reflects substantial efforts to identify efficiencies and constrain future costs for HUD's Project Based Rental Assistance (PBRA) programs. In 2012, the Department is implementing a new risk-based monitoring program that will result in reduced costs for performance-based contract administrators (PBCAs). Accordingly, the FY 2013 request for PBCAs is $29 million less than the FY 2012 appropriation of $289 million. In addition, PBRA program cost savings are expected to be achieved through improved oversight of market rent studies used to establish subsidy payment levels and by capping annual subsidy increases for certain types of Section 8 properties. Both of these policy reforms will reduce subsidy payments but not adversely impact program delivery.

FHA Multifamily and Healthcare Application Processing

The volume of applications for FHA Multifamily mortgage insurance programs has increased dramatically since 2008. To address the processing challenges resulting from this increase in volume, Multifamily is engaged in major workload management initiatives to analyze work flow and identify bottlenecks. On the Development side, we are completing rollout of "Breaking Ground" and in Asset Management have begun the "Sustaining Our Investments" initiative. These efforts are having an immediate impact and producing results. We have identified technical discipline gaps in field offices with high volume and are shifting both workload and staff resources to address these imbalances. As a result of these changes, Multifamily has been able to maintain the pace of processing, and make modest improvements despite the higher volume and without increases in staffing levels. Additional FTE requested for 2013 will provide more support in the field to reduce backlogs and help bring processing times in line with stated targets. Another example is our implementation of an early screening protocol, which improves the quality of the applications and permits only complete and reviewable applications to be placed in the technical processing queue. In addition to these short-term improvements, Multifamily is also focused on developing long-term solutions for business process improvements.

FHA's Office of Healthcare (OHP) programs is also engaged in developing solutions to achieve program efficiencies and increase productivity. To streamline work flow and reduce bottlenecks within its processes, the Section 232 Program for Residential Care Facilities has developed very effective Lean Processing improvements that have enabled OHP to achieve tremendous gains in productivity. Under Lean processes, FHA has been able to respond to dramatic increases in application volume, while decreasing the number of FTE dedicated to Section 232 development activities. In FY 2011, FHA issued 473 Section 232 mortgage insurance commitments, compared with approximately 200 such commitments in 2008. In FY 2012, as a result of continued process improvements and critical contract support – OHP is on pace to issue over 700 commitments.

In the Section 242 Program for Hospitals, management and staff have been developing guidance to streamline a(7) refinancing applications and increase productivity within the program. Both healthcare programs keep communication lines open with frequent, regular email blasts and foster continuous improvement by welcoming ongoing industry input. These collaborative efforts have bolstered Healthcare's continued efforts to end application queues, issue commitments, and process closings within targeted deadlines. Management and staff are focusing on both internal and external production elements to reduce the processing time of healthcare mortgage insurance applications. In the Section 232 program, internal and external delays are being tracked through the use of Visual Management tools that allow managers to better manage applications and identify bottlenecks in the process. Management has been making necessary changes in resource allocation and process steps to better respond to application processing needs. Offices are focusing on cross-collaboration efforts with other offices (legal and risk management) within HUD to remove obstacles to production flow. Externally, Healthcare's lender relations team members are working with lenders to reduce external delays, and closing team members are working with the HUD counsel and lenders' counsel to reduce closing delays. Healthcare has also identified and is working to resolve

inefficiencies in its residential care facility inspection policies, discussed in detail in the response to Question 55 on the status of proposed Section 232 regulations.

FHA Transformation – Single Family Programs

As a part of the FHA Transformation initiative, single family programs have and will continue to realize a wide range of programmatic efficiencies. The following improvements are in various stages of development, using funding provided in FY 2011:

- Automation of lender application/ approval process including lender electronic submission of application and automated workflow for Office of Lender Activities;
- Automation of lender recertification process including lender electronic submission of recertification information (including financials, payment, and certification) and comparative trend analysis based on past lender performance data (claim rate, debt-to-value, early payment defaults, etc.);
- Initial lender performance dashboard containing system-calculated metrics that compares lender's performance across lenders, within their segment, and within lender function
- Electronic delivery of appraisals for the appraisal review process;
- Critical TOTAL functionality operating on new Oracle software using Oracle Policy Automation (OPA) functionality (eliminating reliance on 30 year old coding language);
- Post-endorsement technical review (PETR) information housed on new FFSP allowing for results to be analyzed and considered for future adjustments to TOTAL algorithm;
- Migration of FHA Connection security processing functionality to Federal Financial Services Platform (FFSP);
- Implementation of a modern information technology solution (FFSP) that allows for continued rapid deployment of enhanced and/or new FHA business systems and processes;
- Deployment of a pilot risk and fraud tool that allows FHA to receive initial emerging trends data around collateral (through automated valuation models) and occupancy with limited trends capabilities for income verification, employment validation, and fraud identification using selected tool vendor proprietary tool;
- Deployment of a pilot Portfolio Evaluation Tool to enhance risk identification to the insurance portfolio with reports which will allow FHA executives to conduct surveillance activities (actuarial model comparison, external comparisons, and internal monitoring) and scenario analyses (i.e., macro-economic).

Resources requested for FY 2013 request will build on those efficiencies and achieve the following:

- Automation of manual processes within lender monitoring and enforcement processes;
- Improved master data management capabilities to support improved reporting and analytics across the newly implemented and migrated applications;
- Continued migration of relevant portions of legacy applications to new Federal Financial Services Platform (FFSP) allows for flexibility and agility to respond to market/program changes or other requirements changes and to maintain our ability to leverage FHA's investment in the platform;
- Deployment of additional functionality in the portfolio evaluation tool to enhance risk identification in the insurance portfolio;
- Deployment of additional functionality around the new risk & fraud tool giving FHA increased ability to monitor and deter risk at the transactional level.

Section 202 Housing for the Elderly

HUD proposes for FY 2013 to rely much more substantially on state and local housing agencies for capital funds, focusing its investment instead on long-term deep operating subsidies. This shift in focus builds on HUD's core capacities and more fully leverages other housing resources to fund many more units with a limited appropriation amount. In addition, HUD intends to expand its delegated processing authority to more fully rely on state housing agencies to administer HUD subsidies where they have the capacity and the interest. These requested changes will allow for improved coordination at the state level between housing and health care priorities as well as more cost-effective administration of available HUD rental assistance funds with other State and Federal assistance.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Over the past few years, Ginnie Mae's market share has risen significantly from approximately 4 percent to over 27 percent. These volume increases have placed unprecedented stress on the organization, and have raised the risk of managing this large portfolio.

Ginnie Mae is requesting $21 million in its salaries and expenses appropriation, to be funded from offsetting collections, to execute a phased initiative to increase and strengthen its staffing capacity by hiring professionals with specialized skills and experience necessary to manage its $1.3 trillion business. The increase in specialized professionals will enable quicker detection of, and actions against, emerging programmatic risk. Productivity and efficiencies will also be realized as additional staff is hired to support Ginnie Mae's goals to expand its portfolio modeling and valuation capabilities, as well as its investment in upgrading the MBS pooling, accounting operations, and technology platforms. Finally, and consistent with Ginnie Mae's goals for increased productivity and efficiencies, the increase in staff will result in a reduction in the reliance on contractors, and related expense.

Ginnie Mae will continue to enhance the Ginnie Mae Portfolio Analysis Database System (GPADS), which is an analytic tool that helps track counterparty risk using a range of portfolio statistics and performance comparisons with cohort and broader peer group activity. Ginnie Mae will continue to work with FHA, VA, and the Department of Agriculture's Rural Development on sharing loan data to match loan guarantees.

Without the $21 million appropriation, Ginnie Mae may not have adequate resources to implement identified enhancements to risk management and monitoring. In addition, Ginnie Mae will not be able to implement GAO recommended modeling and valuation capabilities or complete upgrades to operations and technology.

FAIR HOUSING AND EQUAL OPPORTUNITY

Based on past year trends, HUD expects Fair Housing Assistance Program (FHAP) agencies to process over 8,000 complaints of housing discrimination in FY 2013. While we cannot predict this number with certainty, current and past years support this level of workload.

In terms of efficiency, HUD reviews every complaint processed by FHAP agencies for timeliness and quality. Based on that review, we will reimburse FHAP agencies up to $3,600 per complaint, and the amount they receive is calculated based on the timeliness and quality of the investigation. The maximum possible payment is $2,600 for a fully investigated case that results in a determination of no discrimination or a conciliation agreement. HUD reimburses an additional $1,000 for a case that results in the FHAP agency issuing determination of reasonable or probable cause that discrimination occurred because of the further enforcement work (such as litigation) incumbent on the agency post-determination for such a complaint.

HUD tracks the performance of each FHAP agency to ensure that they conduct an efficient and timely investigation. In FY 2011, 53 percent of new FHAP cases were closed within 100 days and 90 percent of cases open the previous year closed last year. Those that remained open did so because of the complexity of the evidence, the legal arguments or because of adjudication. To ensure that quality is not sacrificed by these organizations, HUD conducts on-site performance assessments of FHAP agencies at least every 2 years. During the performance assessments, HUD determines whether the FHAP agency engages in timely, comprehensive, and thorough fair housing complaint investigation, conciliation, and enforcement activities. HUD utilizes the specific standards and requirements enumerated at 24 CFR Section 115.206 to make this determination

A recent series of studies shows that the foreclosure and economic crises has had the unintended effect of tightening housing markets and driving up rents and the costs of homes, often much faster than increases in wages. Segregation, lending and rental discrimination, racial steering, and accommodation and modification needs for people with disabilities has exacerbated the challenge of finding safe and decent housing. The assistance that Fair Housing Initiatives Program (FHIP) grantees provide to victims of housing discrimination in their geographic areas, has proven to be the most efficient and effective way of addressing housing discrimination in this country. The investigations and testing conducted by FHIP grantees significantly strengthen cases filed with HUD. Complaints filed with the Department by FHIP grantees are 20 percent

more likely to result in a settlement, conciliation, or a finding that discrimination occurred, than are complaints not referred by a FHIP agency.

To ensure that FHIP grantees provide quality fair housing services, the Department conducts multiple reviews of FHIP grantees. First, prior to awarding funding, the Department assembles a panel of fair housing experts to review grant applications and select the best organizations for funding. Then, during the grant application process, each grantee informs the Department of specific measurable outcomes they will achieve during the course of the grant and if they receive an award they report to the Department quarterly on their progress on these goals. In addition, every year, for every grant, the Department conducts a monitoring review of the grantee. This includes reviewing cases, financial records, and testing methodology. If something is amiss and is not corrected after the Department provides technical assistance, the Department may recapture the funding from the grantee. Finally, at the conclusion of the grant the Department conducts a final performance assessment of the grantee. This review looks at the project management, project outcomes, financial management, and the timeliness of performance. The rating given on this final assessment determines eligibility for future FHIP grants. Any grantee with poor performance cannot receive funding from the FHIP until the regional offices confirm they have resolved their problems.

Mr. Latham #5

Construction Funds

Question: Why the change to once again asking for construction funds?

Answer: In FY 2013, HUD is asking for $100 million to support expansion activities under the Section 202 Supportive Housing for the Elderly Program. However, in balancing the need for affordable housing for these vulnerable populations against the challenges of current budget realities, the Administration is proposing to sustain historic levels of investment at a much lower upfront cost by leveraging other sources to provide the upfront capital. For that reason, the FY 2013 budget request for both Section 202 and 811 focuses on providing operating assistance contracts to support new or existing affordable housing while leveraging capital funding through other sources, such as the HOME program, State housing trust funds, or the Low-Income Housing Tax Credit (LIHTC) program.

Starting in FY 2012, HUD has provided Section 811 funding through operating assistance awards to state housing agencies that have formed partnerships with state health care agencies that have developed methods for identifying, referring, and conducting outreach to a target population of extremely low-income persons with disabilities requiring long term services and supports. These operating assistance funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through LIHTC, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the state housing agencies to administer the award and on the state health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In FY 2013, HUD is requesting $54 million to add approximately 1,850 units to the supply of affordable housing for persons with disabilities.

HUD has also requested operating assistance funds for Section 202 in FY 2013, which will draw on lessons learned from the implementation of the Section 811 project rental assistance authority. In an effort to maximize creation of new affordable units in a time of funding restraints, the Department is requesting the flexibility to provide operating assistance-only funding to new or existing elderly affordable housing developments that utilize capital from other state and local sources. HUD's assistance will allow these properties to provide housing to a segment of the elderly population that is older, poorer, and frailer than would normally be able to access or afford housing subsidized only through LIHTC and/or HOME programs. Under this model, state housing agencies, in partnership with state health care agencies, act as a delegated agent for HUD, taking advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding. In FY 2013, the requested $100 million will add up to 3,450 units to the supply of affordable housing for persons with disabilities. This number of units supported is consistent with historic levels but at an upfront cost to the Federal Government that is 5-6 times lower.

Mr. Latham #6

Construction Grants

Question: Are you proposing any new legislative or other reforms to get at the problems that plague these programs and caused you not to support construction grants in the past?

Answer: Yes, continuing the work it initiated in 2010, HUD remains committed to implementing a number of administrative and legislative changes over the course of this calendar year. The two bills amending Section 811 and Section 202 which were passed at the end of the 111th Congress lay a strong foundation for reforming the two programs. In addition, the administration expects to request further statutory changes in 2012. These changes are largely technical fixes designed to bring the programs better in line with best practice and ensure a greater return for the Federal investment. Over the course of the last 2 years, HUD convened a number of stakeholder forums and solicited several hundred pages of written comments from concerned practitioners and communities on proposed changes to the Section 202 and Section 811 programs. Any legislative proposals provided to Congress later this year will incorporate this significant feedback which substantiated the need for further statutory changes. Administratively, HUD will be implementing the new authorities provided to it by Congress with the passage of the two new bills as well as looking to make a number of other administrative changes in line with the overall reform agenda stated in the President's 2011 and 2012 budget requests. In addition, HUD will also be updating subsequent Notices of Funding Availability (NOFAs) and revising existing regulations and guidance.

Mr. Latham #7

FTEs

Question: Please provide the number of Full Time Equivalents (FTE) for the each program office within HUD from FY 2002 to FY 2012. Please delineate by program, office and budget activity. Please include the budget request, enacted and actual amount for each year.

Answer: See attached spreadsheet below.

QFR FTE 2002 - 2012.xls

Mr. Latham #8

On-Board Staff

Question: Please provide the number of on-board staff for each program office within HUD from FY 2002 to FY 2012. Please delineate by program, office and budget activity.

Answer: See attached.

HUD On-Board Staff

HU01
FYCNTP2S0111 - HSY

Mr. Latham #9

Budget Request Level vs. Enacted Level

Question: Please provide a chart showing the budget request level versus enacted level for HUD since FY 2002. Please include all supplemental/rescissions. Please delineate by program area, office and budget activity.

Answer: See attached charts.

Microsoft Office
Excel 97-2003 Works

Mr. Latham #10

General Provisions

Question: Please describe each of the General Provision included in the FY 2013 budget request.

Answer: Please see below.

Sec. 201. Fifty percent of the amounts of budget authority, or in lieu thereof 50 percent of the cash amounts associated with such budget authority, that are recaptured from projects described in section 1012(a) of the Stewart B. McKinney Homeless Assistance Amendments Act of 1988 (42 U.S.C. 1437 note) shall be [rescinded] *cancelled* or in the case of cash, shall be remitted to the Treasury, and such amounts of budget authority or cash recaptured and not [rescinded] *cancelled* or remitted to the Treasury shall be used by State housing finance agencies or local governments or local housing agencies with projects approved by the Secretary of Housing and Urban Development for which settlement occurred after January 1, 1992, in accordance with such section. Notwithstanding the previous sentence, the Secretary may award up to 15 percent of the budget authority or cash recaptured and not [rescinded] *cancelled* or remitted to the Treasury to provide project owners with incentives to refinance their project at a lower interest rate.

Explanation of this Section: This section governs the sharing of savings that result from certain Section 8 project bond refinancing. Section 1012 of the McKinney Act requires HUD to split the recaptures evenly between Treasury and State Housing Finance Agencies.

Proposed Action: The President's Budget proposes retaining this section.

Sec. 202. None of the amounts made available under this Act may be used during fiscal year [2012] *2013* to investigate or prosecute under the Fair Housing Act any otherwise lawful activity engaged in by one or more persons, including the filing or maintaining of a nonfrivolous legal action, that is engaged in solely for the purpose of achieving or preventing action by a Government official or entity, or a court of competent jurisdiction.

Explanation of this Section: This section makes clear that the Department will not use its authority under the Fair Housing Act to investigate or prosecute legal activity.

Proposed Action: The President's Budget proposes retaining this section.

Sec. 203. (a) Notwithstanding section 854(c)(1)(A) of the AIDS Housing Opportunity Act (42 U.S.C. 12903(c)(1)(A)), from any amounts made available under this title for fiscal year [2012] *2013* that are allocated under such section, the Secretary of Housing and Urban Development shall allocate and make a grant, in the amount determined under subsection (b), for any State that--

(1) received an allocation in a prior fiscal year under clause (ii) of such section; and

(2) is not otherwise eligible for an allocation for fiscal year [2012] *2013* under such clause (ii) because the areas in the State outside of the metropolitan statistical areas that qualify under clause (i) in fiscal year [2011] *2013* do not have the number of cases of acquired immunodeficiency syndrome (AIDS) required under such clause.

(b) The amount of the allocation and grant for any State described in subsection (a) shall be an amount based on the cumulative number of AIDS cases in the areas of that State that are outside of metropolitan statistical areas that qualify under clause (i) of such section 854(c)(1)(A) in fiscal year [2012] *2013*, in proportion to AIDS cases among cities and States that qualify under clauses (i) and (ii) of such section and States deemed eligible under subsection (a).

(c) Notwithstanding any other provision of law, the amount allocated for fiscal year [2012] *2013* under section 854(c) of the AIDS Housing Opportunity Act (42 U.S.C. 12903(c)), to the city of New York, New York, on behalf of the New York-Wayne-White Plains, New York-New Jersey Metropolitan Division (hereafter "metropolitan division") of the New York-Newark-Edison, NY-NJ-PA Metropolitan Statistical Area, shall be adjusted by the Secretary of Housing and Urban Development by:

(1) allocating to the city of Jersey City, New Jersey, the proportion of the metropolitan area's or division's amount that is based on the number of cases of AIDS reported in the portion of the metropolitan area or division that is located in Hudson County, New Jersey, and adjusting for the proportion of the metropolitan division's high-incidence bonus if this area in New Jersey also has a higher than average per capita incidence of AIDS; and

(2) allocating to the city of Paterson, New Jersey, the proportion of the metropolitan area's or division's amount that is based on the number of cases of AIDS reported in the portion of the metropolitan area or division that is located in Bergen County and Passaic County, New Jersey, and adjusting for the proportion of the metropolitan division's high incidence bonus if this area in New Jersey also has a higher than average per capita incidence of AIDS. The recipient cities shall use amounts allocated under this subsection to carry out eligible activities under section 855 of the AIDS Housing Opportunity Act (42 U.S.C. 12904) in their respective portions of the metropolitan division that is located in New Jersey.

(d) Notwithstanding any other provision of law, the amount allocated for fiscal year [2012] *2013* under section 854(c) of the AIDS Housing Opportunity Act (42 U.S.C. 12903(c)) to areas with a higher than average per capita incidence of AIDS, shall be adjusted by the Secretary on the basis of area incidence reported over a 3-year period.

(e) Section 203(a)(2) of the Department of Housing and Urban Development Appropriations Act, 2012 is amended by striking "2011" and inserting "2012".

Explanation of this Section: This provision gives HUD the authority within its Housing Opportunities for Persons with AIDS (HOPWA) program to honor agreements between the cities that are initially designated to be a formula grant recipient and their state, giving the state the

right to assume the grant responsibility. The state assuming the grant management responsibilities for the initially designated grant recipient must use the resources on behalf of HOPWA eligible clients within the Metropolitan Statistical Area for which those funds were initially allocated. This provision also allows the two prior HOPWA grantees in New Jersey (Paterson and Jersey City) to continue to receive direct allocations rather than give these funds to New York City to then subcontract in these areas. It also allows the program to use AIDS incidence data collected over a 3-year period, rather than one year data, to calculate the high-incidence factor of its formula, which makes up 25 percent of formula funds.

Proposed Action: The Department proposes retaining this provision.

Sec. 204. Except as explicitly provided in law, any grant, cooperative agreement or other assistance made pursuant to title II of this Act shall be made on a competitive basis and in accordance with section 102 of the Department of Housing and Urban Development Reform Act of 1989 (42 U.S.C. 3545).

Explanation of this Section: This provision requires that HUD funds be subject to competition unless specified otherwise in statute.

Proposed Action: The Department proposes retaining this provision.

Sec. 205. Funds of the Department of Housing and Urban Development subject to the Government Corporation Control Act or section 402 of the Housing Act of 1950 shall be available, without regard to the limitations on administrative expenses, for legal services on a contract or fee basis, and for utilizing and making payment for services and facilities of the Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Financing Bank, Federal Reserve banks or any member thereof, Federal Home Loan banks, and any insured bank within the meaning of the Federal Deposit Insurance Corporation Act, as amended (12 U.S.C. 1811-1).

Explanation of this Section: This provision makes limitations on administrative expenses inapplicable to certain expenditures of Ginnie Mae, including legal services contracts and the expenses of carrying out its programmatic duties. This provision ensures that administrative expenses limitation language in annual appropriations bills does not preclude Ginnie Mae's reliance upon its permanent, indefinite appropriation, in Section 1 of the National Housing Act, for essential operating funds.

Proposed Action: The Department proposes retaining this provision.

[**Sec. 206.** Unless otherwise provided for in this Act or through a reprogramming of funds, no part of any appropriation for the Department of Housing and Urban Development shall be available for any program, project or activity in excess of amounts set forth in the budget estimates submitted to Congress.]

Explanation of this Section: This provision forbids HUD from spending more money on any program than they proposed in the budget estimates, unless a different amount is appropriated or provided in a reprogramming.

Proposed Action: The Department proposes deleting this provision because it is redundant.

Sec. [207]*206*. Corporations and agencies of the Department of Housing and Urban Development which are subject to the Government Corporation Control Act are hereby authorized to make such expenditures, within the limits of funds and borrowing authority available to each such corporation or agency and in accordance with law, and to make such contracts and commitments without regard to fiscal year limitations as provided by section 104 of such Act as may be necessary in carrying out the programs set forth in the budget for [2012] *2013* for such corporation or agency except as hereinafter provided: Provided, That collections of these corporations and agencies may be used for new loan or mortgage purchase commitments only to the extent expressly provided for in this Act (unless such loans are in support of other forms of assistance provided for in this or prior appropriations Acts), except that this proviso shall not apply to the mortgage insurance or guaranty operations of these corporations, or where loans or mortgage purchases are necessary to protect the financial interest of the United States Government.

Explanation of this Section: This section is an authorization by which Congress implements its responsibilities under section 104 of the Government Corporation Control Act (31 U.S.C. 9104). After consideration of Ginnie Mae's budget program, as submitted by the President, Congress, through this section, ratifies such budget program and authorizes expenditures of funds, both provided in the appropriations act (for salaries and expenses) and by the permanent indefinite appropriation in Section 1 of the National Housing Act, necessary to carry out the programs set forth in Ginnie Mae's budget program for the coming year.

Proposed Action: The Department proposes retaining this provision.

Sec. [208]*207*. The Secretary of Housing and Urban Development shall provide quarterly reports to the House and Senate Committees on Appropriations regarding all uncommitted, unobligated, recaptured and excess funds in each program and activity within the jurisdiction of the Department and shall submit additional, updated budget information to these Committees upon request.

Explanation of this Section: This provision requires HUD to submit quarterly reports on status of funds.

Proposed Action: The Department proposes retaining this provision.

Sec. [209]*208*.

(a) Notwithstanding any other provision of law, the amount allocated for fiscal year [2012] *2013* under section 854(c) of the AIDS Housing Opportunity Act (42 U.S.C. 12903(c)), to the city of Wilmington, Delaware, on behalf of the Wilmington, Delaware-Maryland-New Jersey

Metropolitan Division (hereafter "metropolitan division"), shall be adjusted by the Secretary of Housing and Urban Development by allocating to the State of New Jersey the proportion of the metropolitan division's amount that is based on the number of cases of AIDS reported in the portion of the metropolitan division that is located in New Jersey, and adjusting for the proportion of the metropolitan division's high incidence bonus if this area in New Jersey also has a higher than average per capita incidence of AIDS. The State of New Jersey shall use amounts allocated to the State under this subsection to carry out eligible activities under section 855 of the AIDS Housing Opportunity Act (42 U.S.C. 12904) in the portion of the metropolitan division that is located in New Jersey.

(b) Notwithstanding any other provision of law, the Secretary of Housing and Urban Development shall allocate to Wake County, North Carolina, the amounts that otherwise would be allocated for fiscal year [2012] *2013* under section 854(c) of the AIDS Housing Opportunity Act (42 U.S.C. 12903(c)) to the city of Raleigh, North Carolina, on behalf of the Raleigh-Cary North Carolina Metropolitan Statistical Area. Any amounts allocated to Wake County shall be used to carry out eligible activities under section 855 of such Act (42 U.S.C. 12904) within such metropolitan statistical area.

(c) Notwithstanding section 854(c) of the AIDS Housing Opportunity Act (42 U.S.C. 12903(c)), the Secretary of Housing and Urban Development may adjust the allocation of the amounts that otherwise would be allocated for fiscal year [2012] *2013* under section 854(c) of such Act, upon the written request of an applicant, in conjunction with the State(s), for a formula allocation on behalf of a metropolitan statistical area, to designate the State or States in which the metropolitan statistical area is located as the eligible grantee(s) of the allocation. In the case that a metropolitan statistical area involves more than one State, such amounts allocated to each State shall be in proportion to the number of cases of AIDS reported in the portion of the metropolitan statistical area located in that State. Any amounts allocated to a State under this section shall be used to carry out eligible activities within the portion of the metropolitan statistical area located in that State.

Explanation of this Section: This provision allows funds for one county in New Jersey (Salem) to be transferred from the Wilmington, DE formula allocation to the state of New Jersey for the New Jersey area of that Metropolitan Statistical Area (MSA). It allows Wake County, NC, to be retained as the grantee for the City of Raleigh, NC on behalf of the Raleigh-Cary, North Carolina MSA. It allows for the continued eligibility of a state to receive HOPWA funds if later an MSA directly qualified and the balance of state area outside of that MSA would then be below the threshold of cases of AIDS to receive HOWPA funds. Funds will then be prorated to the AIDS data for that balance of state area and allocated to allow programs to continue in that area.

Proposed Action: The Department proposes retaining this provision.

[**Sec. 210.** The President's formal budget request for fiscal year 2013, as well as the Department of Housing and Urban Development's congressional budget justifications to be submitted to the Committees on Appropriations of the House of Representatives and the Senate, shall use the identical account and sub-account structure provided under this Act.]

Explanation of this Section: This provision requires the Department to structure its budget request in an identical way to the structure of the Appropriations Act.

Proposed Action: The Department proposes deleting this provision. The Department provides its justification in this format and will continue to do so.

Sec. [211]*209*. A public housing agency or such other entity that administers Federal housing assistance for the Housing Authority of the county of Los Angeles, California, the States of Alaska, Iowa, and Mississippi shall not be required to include a resident of public housing or a recipient of assistance provided under section 8 of the United States Housing Act of 1937 on the board of directors or a similar governing board of such agency or entity as required under section (2)(b) of such Act. Each public housing agency or other entity that administers Federal housing assistance under section 8 for the Housing Authority of the County of Los Angeles, California and the States of Alaska, Iowa and Mississippi that chooses not to include a resident of public housing or a recipient of section 8 assistance on the board of directors or a similar governing board shall establish an advisory board of not less than six residents of public housing or recipients of section 8 assistance to provide advice and comment to the public housing agency or other administering entity on issues related to public housing and section 8. Such advisory board shall meet not less than quarterly.

Explanation of this Section: This provision allows PHA Boards in Alaska, Iowa, and Mississippi and the County of Los Angeles to establish advisory boards in lieu of the public housing resident representation requirement.

Proposed Action: The Department proposes retaining this provision as it provides flexibility for PHAs in choosing the governance structure that works best for them.

Sec. [212]*210*.
(a) Notwithstanding any other provision of law, subject to the conditions listed in subsection (b), for fiscal years [2012] *2013* and [2013] *2014*, the Secretary of Housing and Urban Development may authorize the transfer of some or all project-based assistance, debt and statutorily required low-income and very low-income use restrictions, associated with one or more multifamily housing project to another multifamily housing project or projects.

(b) Phased Transfers.--Transfers of project-based assistance under this section may be done in phases to accommodate the financing and other requirements related to rehabilitating or constructing the project or projects to which the assistance is transferred, to ensure that such project or projects meet the standards under section (c).

(c) The transfer authorized in subsection (a) is subject to the following conditions:

(1) Number and bedroom size of units.--

(A) For occupied units in the transferring project: the number of low-income and very low-income units and the configuration (i.e. bedroom size) provided by the transferring project shall be no less than when transferred to the receiving project or projects [and the net

dollar amount of Federal assistance provided by the transferring project shall remain the same in the receiving project or projects].

(B) For unoccupied units in the transferring project: the Secretary may authorize a reduction in the number of dwelling units in the receiving project or projects to allow for a reconfiguration of bedroom sizes to meet current market demands, as determined by the Secretary [and provided there is no increase in the project-based section 8 budget authority].

(2) The net dollar amount of Federal assistance provided to the transferring project shall remain the same as the receiving project or projects.

[(2)]*(3)* The transferring project shall, as determined by the Secretary, be either physically obsolete or economically nonviable.

[(3)]*(4)* The receiving project or projects shall meet or exceed applicable physical standards established by the Secretary.

[(4)]*(5)* The owner or mortgagor of the transferring project shall notify and consult with the tenants residing in the transferring project and provide a certification of approval by all appropriate local governmental officials.

[(5)]*(6)* The tenants of the transferring project who remain eligible for assistance to be provided by the receiving project or projects shall not be required to vacate their units in the transferring project or projects until new units in the receiving project are available for occupancy.

[(6)]*(7)* The Secretary determines that this transfer is in the best interest of the tenants.

[(7)]*(8)* If either the transferring project or the receiving project or projects meets the condition specified in subsection (d)(2)(A), any lien on the receiving project resulting from additional financing obtained by the owner shall be subordinate to any FHA-insured mortgage lien transferred to, or placed on, such project by the Secretary, except that the Secretary may waive this requirement upon determination that such a waiver is necessary to facilitate the financing of acquisition, construction, and/or rehabilitation of the receiving project or projects.

[(8)]*(9)* If the transferring project meets the requirements of subsection (d)(2)(E), the owner or mortgagor of the receiving project or projects shall execute and record either a continuation of the existing use agreement or a new use agreement for the project where, in either case, any use restrictions in such agreement are of no lesser duration than the existing use restrictions.

(10) The transfer does not increase the cost (as defined in section 502 of the Congressional Budget Act of 1974, as amended) of any FHA-insured mortgage, except to the extent that appropriations are provided in advance for the amount of any such increased cost.

(d) For purposes of this section--

(1) the terms "low-income" and "very low-income" shall have the meanings provided by the statute and/or regulations governing the program under which the project is insured or assisted;

(2) the term "multifamily housing project" means housing that meets one of the following conditions--

(A) housing that is subject to a mortgage insured under the National Housing Act;

(B) housing that has project-based assistance attached to the structure including projects undergoing mark to market debt restructuring under the Multifamily Assisted Housing Reform and Affordability Housing Act;

(C) housing that is assisted under section 202 of the Housing Act of 1959 as amended by section 801 of the Cranston-Gonzales National Affordable Housing Act;

(D) housing that is assisted under section 202 of the Housing Act of 1959, as such section existed before the enactment of the Cranston-Gonzales National Affordable Housing Act; [or]

(E) housing that is assisted under section 811 of the Cranston-Gonzales National Affordable Housing Act; or

[(E)]*(F)* housing or vacant land that is subject to a use agreement;

(3) the term "project-based assistance" means--

(A) assistance provided under section 8(b) of the United States Housing Act of 1937;

(B) assistance for housing constructed or substantially rehabilitated pursuant to assistance provided under section 8(b)(2) of such Act (as such section existed immediately before October 1, 1983);

(C) rent supplement payments under section 101 of the Housing and Urban Development Act of 1965;

(D) interest reduction payments under section 236 and/or additional assistance payments under section 236(f)(2) of the National Housing Act;

(E) assistance payments made under section 202(c)(2) of the Housing Act of 1959; and

(F) assistance payments made under section 811(d)(2) of the Housing Act of 1959;

(4) the term "receiving project or projects" means the multifamily housing project or projects to which some or all of the project-based assistance, debt, and statutorily required [use] low-income and very low-income use restrictions are to be transferred;

(5) the term "transferring project" means the multifamily housing project which is transferring some or all of the project-based assistance, debt and the statutorily required low-income and very low-income use restrictions to the receiving project or projects; and

(6) the term "Secretary" means the Secretary of Housing and Urban Development.

(e) The Secretary shall publish by notice in the Federal Register the terms and conditions, including criteria for HUD approval, of transfers pursuant to this section no later than 30 days before the effective date of such notice.

Explanation of this Section: This provision allows the transfer of subsidy, debt and use restrictions from an obsolete multifamily project to a viable multifamily project under a variety of specified conditions. The Department also proposes to require the terms and conditions of such transfers to be published in the Federal Register for increased transparency.

Proposed Action: The Department proposes to retain this provision with the authority effective for Fiscal Years 2013 and 2014. The Department also proposes to require the terms and conditions of such transfers to be published in the Federal Register for increased transparency.

[**Sec. 213.** The funds made available for Native Alaskans under the heading "Native American Housing Block Grants" in title III of this Act shall be allocated to the same Native Alaskan housing block grant recipients that received funds in fiscal year 2005.]

Explanation of this Section: This provision requires HUD to allocate Native American Housing Block Grant funds individually to the 222 Native Alaskan villages.

Proposed Action: The Department proposes deleting this provision. It is more efficient for HUD to work with the Alaska's fourteen regional housing authorities to implement these grants than to work with the 222 native villages individually.

[**Sec. 214.**] No funds provided under this title may be used for an audit of the Government National Mortgage Association that makes applicable requirements under the Federal Credit Reform Act of 1990 (2 U.S.C. 661 et seq.).]

Explanation of this Section: This provision prohibits use of GNMA funds for certain audit activities.

Proposed Action: The Department proposes deleting this provision as it has no effect on the audits of GNMA.

[Sec. 215.]
(a) No assistance shall be provided under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f) to any individual who--

(1) is enrolled as a student at an institution of higher education (as defined under section 102 of the Higher Education Act of 1965 (20 U.S.C. 1002));

(2) is under 24 years of age;

(3) is not a veteran;

(4) is unmarried;

(5) does not have a dependent child;

(6) is not a person with disabilities, as such term is defined in section 3(b)(3)(E) of the United States Housing Act of 1937 (42 U.S.C. 1437a(b)(3)(E)) and was not receiving assistance under such section 8 as of November 30, 2005; and

(7) is not otherwise individually eligible, or has parents who, individually or jointly, are not eligible, to receive assistance under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f).

(b) For purposes of determining the eligibility of a person to receive assistance under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f), any financial assistance (in excess of amounts received for tuition and any other required fees and charges) that an individual receives under the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.), from private sources, or an institution of higher education (as defined under the Higher Education Act of 1965 (20 U.S.C. 1002)), shall be considered income to that individual, except for a person over the age of 23 with dependent children.]

Explanation of this Section: This provision explains situations where HUD rental assistance could not be extended.

Proposed Action: The Department recommends the deletion of this provision. All of the requirements sent forward in this provision are included in program rules issued by HUD, making this provision obsolete.

Sec. [216]*211*. [Notwithstanding the limitation in the first sentence of section 255(g) of the National Housing Act (12 U.S.C. 1715z-g), the Secretary of Housing and Urban Development may, until September 30, 2012, insure and enter into commitments to insure mortgages under] *The first sentence of* section 255(g) of the National Housing Act (12 U.S.C. 1715z-20(g)) *is*

repealed.

Explanation of this Section: This provision removes the aggregate mortgage cap in the first sentence in Section 255(g) of the National Housing Act (Act), which limits the total number of Home Equity Conversion Mortgages (HECM) loans that can be insured by the FHA.

Proposed Action: The Department proposes to repeal the first sentence in the Act to remove the cap permanently. Previously, the exemption was authorized fiscal year by fiscal year.

[**Sec. 217**. Notwithstanding any other provision of law, in fiscal year 2012, in managing and disposing of any multifamily property that is owned or has a mortgage held by the Secretary of Housing and Urban Development, and during the process of foreclosure on any property with a contract for rental assistance payments under section 8 of the United States Housing Act of 1937 or other Federal programs, the Secretary shall maintain any rental assistance payments under section 8 of the United States Housing Act of 1937 and other programs that are attached to any dwelling units in the property. To the extent the Secretary determines, in consultation with the tenants and the local government, that such a multifamily property owned or held by the Secretary is not feasible for continued rental assistance payments under such section 8 or other programs, based on consideration of (1) the costs of rehabilitating and operating the property and all available Federal, State, and local resources, including rent adjustments under section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 ("MAHRAA") and (2) environmental conditions that cannot be remedied in a cost-effective fashion, the Secretary may, in consultation with the tenants of that property, contract for project-based rental assistance payments with an owner or owners of other existing housing properties, or provide other rental assistance. The Secretary shall also take appropriate steps to ensure that project-based contracts remain in effect prior to foreclosure, subject to the exercise of contractual abatement remedies to assist relocation of tenants for imminent major threats to health and safety after written notice to and informed consent of the affected tenants and use of other available remedies, such as partial abatements or receivership. After disposition of any multifamily property described under this section, the contract and allowable rent levels on such properties shall be subject to the requirements under section 524 of MAHRAA.]

Explanation of this Section: This provision governs the use of project-based subsidy in connection with managing and disposing of multifamily properties.

Proposed Action: The Department proposes elimination of the provision as it limits the Department's flexibility in dealing with multifamily properties.

[**Sec. 218**. The Secretary of Housing and Urban Development shall report quarterly to the House of Representatives and Senate Committees on Appropriations on HUD's use of all sole-source contracts, including terms of the contracts, cost, and a substantive rationale for using a sole-source contract.]

Explanation of this Section: This provision requires HUD to prepare quarterly reports on the use of sole source contracts.

Proposed Action: The Department proposes to eliminate this provision. Data on the use of sole source contracts are collected elsewhere, including USAspending.gov, and therefore requiring a separate HUD report is duplicative and is an excessive burden.

Sec. [219]*212*. During fiscal year [2012] *2013*, in the provision of rental assistance under section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)) in connection with a program to demonstrate the economy and effectiveness of providing such assistance for use in assisted living facilities that is carried out in the counties of the State of Michigan notwithstanding paragraphs (3) and (18)(B)(iii) of such section 8(o), a family residing in an assisted living facility in any such county, on behalf of which a public housing agency provides assistance pursuant to section 8(o)(18) of such Act, may be required, at the time the family initially receives such assistance, to pay rent in an amount exceeding 40 percent of the monthly adjusted income of the family by such a percentage or amount as the Secretary of Housing and Urban Development determines to be appropriate.

Explanation of this Section: This provision authorizes the Secretary to waive certain requirements on adjusted income for certain assisted living projects for counties in Michigan.

Proposed Action: The Department proposes retaining this provision. The flexibility it provides to certain PHAs enables them to execute innovative practices that better serve households.

[**Sec. 220**. Notwithstanding any other provision of law, the recipient of a grant under section 202b of the Housing Act of 1959 (12 U.S.C. 1701q) after December 26, 2000, in accordance with the unnumbered paragraph at the end of section 202(b) of such Act, may, at its option, establish a single-asset nonprofit entity to own the project and may lend the grant funds to such entity, which may be a private nonprofit organization described in section 831 of the American Homeownership and Economic Opportunity Act of 2000.]

Explanation of this Section: This section states that section 202(b) grants after December 2000 may go to private, non-profit organizations.

Proposed Action: The Department proposes to delete this provision as it is now permanent law, enacted as section 220 of P.L. 111-117.

Sec. [221]*213*. The [amounts] *commitment authority funded by fees as* provided under the subheading "Program Account" under the heading "Community Development Loan Guarantees" may be used to guarantee, or make commitments to guarantee, notes, or other obligations issued by any State on behalf of non-entitlement communities in the State in accordance with the requirements of section 108 of the Housing and Community Development Act of 1974: Provided, That any State receiving such a guarantee or commitment shall distribute all funds subject to such guarantee to the units of general local government in non-entitlement areas that received the commitment.

Explanation of this Section: This provision allows non-entitlement areas to qualify for Section 108 loans under their State CDBG program and for the program to be funded by fees.

Proposed Action: The Department proposes retaining this provision, changing the language slightly to reflect the new, fee-based Section 108 program.

[**Sec. 222**. Section 24 of the United States Housing Act of 1937 (42 U.S.C. 1437v) is amended--

(1) in subsection (m)(1), by striking "fiscal year" and all that follows through the period at the end and inserting "fiscal year 2012."; and

(2) in subsection (o), by striking "September" and all that follows through the period at the end and inserting "September 30, 2012.".]

Explanation of this Section: This provision extends the authorization of appropriations and sunset provision in the HOPE VI statute through fiscal year 2012.

Proposed Action: The Department proposes deleting this provision because the HOPE VI program has been replaced by the Choice Neighborhoods program. The Budget proposes a new Section 233 to allow HUD to continue to obligate and expend balances from prior-year appropriations for HOPE VI and Choice Neighborhoods.

[**Sec. 223**. Public housing agencies that own and operate 400 or fewer public housing units may elect to be exempt from any asset management requirement imposed by the Secretary of Housing and Urban Development in connection with the operating fund rule: Provided, That an agency seeking a discontinuance of a reduction of subsidy under the operating fund formula shall not be exempt from asset management requirements.]

Explanation of this Section: This provision permits small PHAs with 400 or fewer units to elect not to operate under asset management.

Proposed Action: The Department does not support increasing the threshold for exemption from asset management to 400 units.

[**Sec. 224.** With respect to the use of amounts provided in this Act and in future Acts for the operation, capital improvement and management of public housing as authorized by sections 9(d) and 9(e) of the United States Housing Act of 1937 (42 U.S.C. 1437g(d) and (e)), the Secretary shall not impose any requirement or guideline relating to asset management that restricts or limits in any way the use of capital funds for central office costs pursuant to section 9(g)(1) or 9(g)(2) of the United States Housing Act of 1937 (42 U.S.C. 1437g(g)(1), (2)): Provided, That a public housing agency may not use capital funds authorized under section 9(d) for activities that are eligible under section 9(e) for assistance with amounts from the operating fund in excess of the amounts permitted under section 9(g)(1) or 9(g)(2).]

Explanation of this Section: This provision prohibits HUD restrictions on the use of capital funds for PHAs' central office/overhead costs.

Proposed Action: The Department recommends deleting this provision. It is not necessary to repeat this provision since it was enacted to apply to "future Acts."

Sec. [225]*214*. No official or employee of the Department of Housing and Urban Development shall be designated as an allotment holder unless the Office of the Chief Financial Officer has determined that such allotment holder has implemented an adequate system of funds control and has received training in funds control procedures and directives. The Chief Financial Officer shall ensure that [, not later than 90 days after the date of enactment of this Act,] *there* is a trained allotment holder [shall be designated] for each HUD subaccount under the heading "Administration, Operations, and Management" as well as each account receiving appropriations for "Program Office Salaries and Expenses" within the Department of Housing and Urban Development.

Explanation of this Section: This provision requires the OCFO to make sure that an adequate funds control system is in place and training on funds control procedures and directives has occurred for an official or employee before such official or employee is designated an allotment holder. It also requires the CFO to ensure that trained allotment holders are in place for each salaries and expenses account.

Proposed Action: The Department proposes retaining this provision.

[**Sec. 226**. The Secretary of Housing and Urban Development shall report quarterly to the House and Senate Committees on Appropriations on the status of all section 8 project-based housing, including the number of all project-based units by region as well as an analysis of all federally subsidized housing being refinanced under the Mark-to-Market program. The Secretary shall in the report identify all existing units maintained by region as section 8 project-based units and all project-based units that have opted out of section 8 or have otherwise been eliminated as section 8 project-based units. The Secretary shall identify in detail and by project all the efforts made by the Department to preserve all section 8 project-based housing units and all the reasons for any units which opted out or otherwise were lost as section 8 project-based units. Such analysis shall include a review of the impact of the loss of any subsidized units in that housing marketplace, such as the impact of cost and the loss of available subsidized, low-income housing in areas with scarce housing resources for low-income families.]

Explanation of this Section: This provision requires HUD to prepare quarterly reports on section 8 project-based housing.

Proposed Action: The Department proposes to eliminate this reporting requirement; however, it recognizes the Congress' continued interest in the report. On a semi-annual basis the Department is able provide data on the status of all Section 8 project-based units by region, an analysis of refinancing under the Mark-to-Market program, existing section 8 units, and units that have opted out or been eliminated as Section 8 project-based units. The Department does not have the resources or capacity to collect data or report on the requirement to identify all efforts to preserve section 8 project-based units, reasons why units opted out or were lost as Section 8 project-based units, and the impact of such losses on affected markets.

[**Sec. 227**. Payment of attorney fees in program-related litigation must be paid from individual program office personnel benefits and compensation funding. The annual budget submission for

program office personnel benefit and compensation funding must include program-related litigation costs for attorney fees as a separate line item request.]

Explanation of this Section: This provision requires the Department to pay all program-related litigation attorney fees out individual personnel benefits accounts. These costs must be reflected as a separate line item request in the budget submission.

Proposed Action: The Department proposes deleting this provision.

Sec. [228]*215*. The Secretary of the Department of Housing and Urban Development shall for fiscal year [2012] *2013* and subsequent fiscal years, notify the public through the Federal Register and other means, as determined appropriate, of the issuance of a notice of the availability of assistance or notice of funding availability (NOFA) for any program or discretionary fund administered by the Secretary that is to be competitively awarded. Notwithstanding any other provision of law, for fiscal year [2012] *2013* and subsequent fiscal years, the Secretary may make the NOFA available only on the Internet at the appropriate Government Web site or through other electronic media, as determined by the Secretary.

Explanation of this Section: This provision requires the Department to publish notices of availability of assistance or funding availability for any program that is competitively awarded. These notices may be published on the Internet.

Proposed Action: The Department proposes retaining this provision.

Sec. [229]*216*. The Secretary of the Department of Housing and Urban Development is authorized to transfer up to 5 percent or $5,000,000, whichever is less, of the funds appropriated for any office funded under the heading "Administration, Operations, and Management" to any other office funded under such heading: Provided, That no appropriation for any office funded under the heading "Administration, Operations, and Management" shall be increased or decreased by more than 5 percent or $5,000,000, whichever is less, without prior written [approval of] *notification* to the House and Senate Committees on Appropriations: Provided further, That the Secretary is authorized to transfer up to 5 percent or $5,000,000, whichever is less, of the funds appropriated for any account funded under the general heading "Program Office Salaries and Expenses" to any other account funded under such heading: Provided further, That no appropriation for any account funded under the general heading "Program Office Salaries and Expenses" shall be increased or decreased by more than 5 percent or $5,000,000, whichever is less, without prior written [approval of] *notification to* the House and Senate Committees on Appropriations: Provided further, That the Secretary may transfer funds made available for salaries and expenses between any office funded under the heading "Administration, Operations and Management" and any account funded under the general heading "Program Office Salaries and Expenses", but only with the prior written [approval of] *notification to* the House and Senate Committees on Appropriations.

Explanation of this Section: This provision gives the Secretary the ability to transfer as needed a defined amount of funds between all accounts that provide for personnel and non-personnel expenses.

Proposed Action: The Department proposes retaining this provision.

Sec. [230]*217*. The Disaster Housing Assistance Programs, administered by the Department of Housing and Urban Development, shall be considered a "program of the Department of Housing and Urban Development" under section 904 of the McKinney Act for the purpose of income verifications and matching.

Explanation of this Section: This provision ensures that all recipients of HUD Disaster Assistance funds meet the criteria set forth for income verification and matching set forth by the McKinney Act.

Proposed Action: The Department proposes retaining this provision.

[**Sec. 231**. The Comptroller General of the United States shall carry out a study of the effectiveness of the block grant programs administered by the Office of Community Planning and Development of the Department of Housing and Urban Development, including an examination of best practices utilized by program grantees and performance metrics utilized by the Department. Not later than 180 days of enactment of this Act, the Comptroller General shall submit a report to the Congress describing its findings, including such best practices and performance metrics.]

Explanation of this Section: This provision requests the Comptroller General to do a study of the effectiveness of HUD Community Planning and Development block grant programs.

Proposed Action: The Department proposes to delete this provision, as it is a one-time action.

[**Sec. 232**. The Secretary shall take actions necessary to improve data quality, data management, and grantee oversight and accountability with respect to programs and activities administered by the Office of Community Planning and Development. The Secretary shall address the problems identified by the Inspector General of the Department in audits and audit reports since 2006, including ongoing audits, with respect to such programs and activities. Not later than 120 days after enactment of this Act, the Secretary shall submit a report to the Congress on progress achieved by the Department with respect to addressing such problems and identifying further improvements that can be made (including improvements relating to information technology) and proposed actions and timelines to carry out such improvements.]

Explanation of this Section: This provision requests the Secretary to improve data quality, data management, and grantee oversight and accountability of CPD block grant programs.

Proposed Action: The Department proposes to delete this provision, as it is a one-time action.

Sec. [233]*218*. Of the amounts made available for salaries and expenses under all accounts under this title (except for the Office of Inspector General account), a total of up to $10,000,000 may be transferred to and merged with amounts made available in the "Working Capital Fund"

account under this title.

Explanation of this Section: This provision allows HUD to transfer up to $10 million into the Working Capital Fund from salaries and expenses to fund technology priorities throughout the Department.

Proposed Action: The Department proposes retaining this provision.

[**Sec. 234.**
(a) None of the funds made available by this Act for purposes authorized under section 8 (only with respect to the tenant-based rental assistance program) and section 9 of the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) may be used by any public housing agency for any amount of salary, for the chief executive officer of which, or any other official or employee of which, that exceeds the annual rate of basic pay payable for a position at level IV of the Executive Schedule at any time during any public housing agency fiscal year 2012.

(b) Subsection (a) shall take effect 120 days after the date of enactment of this Act.]

Explanation of this Section: Limits (i.e., caps) the use of FY 2013 Section 8 and Section 9 appropriations to pay salaries to public housing agency (PHA) chief executive officers, other officials, or any other employees.

Proposed Action: The Department proposes deleting this provision. In 2011, HUD instituted a requirement for PHAs to report to HUD annually the compensation provided to each of their five highest compensated employees, which will then be posted on HUD's website with job titles but without employee names. The first report will be posted on HUD's website by March 2012. PHA boards will also be required to conduct comparability analyses when determining executive director compensation levels and certify that such an analysis has been performed.

Sec. [235]*219*. Title II of [division I of Public Law 108-447 and title III of Public Law 109-115 are each] *Division K of Public Law 110-161 is* amended by striking the item related to "Flexible Subsidy Fund".

Explanation of this Section: This provision eliminates the mandatory transfer of excess resources from the Rental Housing Assistance Fund to the Flexible Subsidy Fund. These excess resources cannot be spent under existing law in either account, making the transfer unnecessary.

Proposed Action: The Department proposes to eliminate the transfer requirement, and updates the provision from P.L. 112-55 to reference the most recently enacted statute requiring the transfer (P.L. 110-161). This is a conforming amendment.

[**Sec. 236**. Of the unobligated balances remaining from funds appropriated under the heading "Tenant-Based Rental Assistance" under the "Full-Year Continuing Appropriations Act, 2011", $650,000,000 are rescinded from the $4,000,000,000 which are available on October 1, 2011: Provided, That such amounts may be derived from reductions to public housing agencies' calendar year 2012 allocations based on the excess amounts of public housing agencies' net

restricted assets accounts, including the net restricted assets of MTW agencies (in accordance with VMS data in calendar year 2011 that is verifiable and complete), as determined by the Secretary.]

Explanation of this Section: This fiscal year 2012 provision rescinded $650 million of the $4 billion advance appropriation for the Tenant-Based Rental Assistance account.

Proposed Action: The Department proposes deleting this provision. This was a one-time action in 2012, and the Department estimates that the provision reduces PHA net restricted assets to minimal levels.

[**Sec. 237**. Section 579 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (42 U.S.C. 1437f) is amended by striking "October 1, 2011" each place it appears and inserting in lieu thereof "October 1, 2015".]

Explanation of this Section: This section extends the Mark to Market program for 4 years.

Proposed Action: The Department proposes deletion of the language since an extension through 2015 was enacted in P.L. 112-55.

[**Sec. 238**. Notwithstanding any other provision of law, for mortgages for which a Federal Housing Administration case number has been assigned during the period beginning on the date of enactment of this Act and ending on December 31, 2013, the dollar amount limitation on the principal obligation for purposes of section 203 of the National Housing Act (12 U.S.C. 1709) shall be considered to be, except for purposes of section 255(g) of such Act (12 U.S.C. 1715z-20(g)), the greater of--

(1) the dollar amount limitation on the principal obligation of a mortgage determined under section 203(b)(2) of the National Housing Act (12 U.S.C. 1709(b)(2)); or]

(2) the dollar amount limitation that was prescribed for such size residence for such area for 2008 pursuant to section 202 of the Economic Stimulus Act of 2008 (Public Law 110-185; 122 Stat. 620).]

Explanation of this Section: This section raises the maximum loan limit for FHA's single-family mortgage in high-cost areas to $729,750; it will be effective through December 31, 2013.

Proposed Action: The Department proposes to delete this provision since the authorization for increasing the maximum loan limit remains effective through December 31, 2013.

[**Sec. 239**. Of the funds made available for the "Department of Housing and Urban Development, Community Planning and Development, Community Development Fund", up to $300,000,000, to remain available until expended, shall be for necessary expenses for activities authorized under title I of the Housing and Community Development Act of 1974 (Public Law 93-383) related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in the most impacted and distressed areas resulting from a major

disaster declared pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.) in 2011: Provided, That funds shall be awarded directly to the State or unit of general local government at the discretion of the Secretary: Provided further, That prior to the obligation of funds a grantee shall submit a plan to the Secretary detailing the proposed use of all funds, including criteria for eligibility and how the use of these funds will address long-term recovery and restoration of infrastructure: Provided further, That such funds may not be used for activities reimbursable by, or for which funds are made available by, the Federal Emergency Management Agency or the Army Corps of Engineers: Provided further, That funds allocated under this heading shall not be considered relevant to the non-disaster formula allocations under the Community Development Fund: Provided further, That a State or subdivision thereof may use up to 5 percent of its allocation for administrative costs: Provided further, That in administering the funds under this heading, the Secretary of Housing and Urban Development may waive, or specify alternative requirements for, any provision of any statute or regulation that the Secretary administers in connection with the obligation by the Secretary or the use by the recipient of these funds or guarantees (except for requirements related to fair housing, nondiscrimination, labor standards, and the environment), upon a request by a State or subdivision thereof explaining why such waiver is required to facilitate the use of such funds or guarantees, if the Secretary finds that such waiver would not be inconsistent with the overall purpose of title I of the Housing and Community Development Act of 1974: Provided further, That the Secretary shall publish in the Federal Register any waiver of any statute or regulation that the Secretary administers pursuant to title I of the Housing and Community Development Act of 1974 no later than 5 days before the effective date of such waiver: Provided further, That an additional $100,000,000 shall be available for the same purposes and terms described in this section and shall be designated by Congress as being for disaster relief pursuant to section 251(b)(2)(D) of the Balanced Budget and Emergency Deficit Control Act of 1985.]

Explanation of this Section: This provision sets aside up to $300 million for CDBG funding for disaster relief for impacted areas resulting from major disasters declared pursuant to the Stafford Act in 2011. It also provides an additional $100 million for the same purposes, but designates this amount within the disaster relief budget adjustment caps.

Proposed Action: The Department proposes to delete this provision, as the 2013 Budget does not request any CDBG funding for disaster relief.

***Sec. 220**. Paragraph (1) of section 242(i) of the National Housing Act (12 U.S.C. 1715z-7(i)(1)) is amended by striking "July 31, 2011" and inserting "July 31, 2016".*

Explanation of this Section: This section allows critical access hospitals to be insured under section 242 of the National Housing Act.

Proposed Action: The Department proposes the addition of this provision in 2013. The Department proposes to extend the termination date of the exemption for critical access hospitals for 5 more years, from July 31, 2011 to July 31, 2016.

***Sec. 221**. Subparagraph (A) of Section 3(b)(6) of the U.S. Housing Act of 1937 (42 U.S.C. 1437a(b)(6)(A)) is amended by inserting before the period at the end the following: ", or a consortium of such entities or bodies as approved by the Secretary".*

Explanation of this Section: This provision changes the definition of a PHA that operates public housing to include a consortium of PHAs.

Proposed Action: The Department proposes the addition of this provision in 2013. This aligns with the Department's efforts to increase operational efficiencies and reduce administrative burden on HUD and PHAs.

***Sec. 222**. Section 8(o) of the U.S. Housing Act of 1937 (42 U.S.C. 1437f(o)) is amended to insert a new paragraph (21) as follows:*

"(21) SPONSOR-BASED ASSISTANCE FOR HOMELESS FAMILIES.

"(A) IN GENERAL-- A public housing agency may use up to five percent of its authorized units for sponsor-based rental assistance under this paragraph to provide units to house families that meet the definition of "homeless" under section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11302).

"(B) HOUSING ASSISTANCE CONTRACT.--Assistance under this paragraph shall be provided pursuant to a contract between the agency and a private nonprofit sponsor for the rental costs of dwelling units owned or leased by the sponsor and that shall be contingent upon the provision of supportive services to assist eligible families in achieving long-term stability. The contract shall provide for evaluation of the sponsor by the public housing agency at least once every two years for compliance and performance under the contract.

"(C) CONSULTATION.--A public housing agency shall consult with the local Continuum of Care, as identified by the Secretary, when determining the size of the population eligible for sponsor-based assistance under this paragraph, selecting a high capacity private nonprofit sponsor, and establishing an admissions preferences.

"(D) ADMISSIONS. --A public housing agency may establish an admissions preference in contracts under this paragraph for homeless families with one or more characteristics that significantly impede the ability to obtain and retain housing, as determined by the Secretary.

"(E) TENANT PROTECTIONS.--For the purposes of this paragraph, the sponsor shall administer evictions and terminations of assistance for tenants consistent with the requirements of paragraphs (7)(C),(D), (E), and (F) of this subsection. Refusal of supportive services by a family assisted under this paragraph shall not be considered good cause for termination of assistance or eviction.

"(F) DATA COLLECTION.--Public housing agencies shall require sponsors to submit data to the applicable homeless management information system (HMIS) for the geographic

area, as required by the Secretary.

"(G) WAIVER.--The Secretary may waive or specify alternative requirements (except for requirements related to fair housing, nondiscrimination, labor standards, and the environment) for any provision of section 8(o) of this Act, if necessary for the effective implementation of sponsor-based assistance.

"(H) NOTICE.-- The Secretary shall establish requirements for the implementation of this paragraph by notice published in the Federal Register.".

Explanation of this Section: This provision allows PHAs to use up to 5 percent of their Tenant-Based Rental Assistance authorized units to enter into rental assistance contracts with private nonprofit organizations that agree to provide supportive services to homeless families.

Proposed Action: The Department proposes the addition of this provision in 2013. This provision will allow local governments to dedicate rental assistance resources to provide permanent supportive housing for homeless families at no additional cost.

***Sec. 223**. MINIMUM RENTS AND FLAT RENTS:*
(a) Section 3(a) of the United States Housing Act of 1937 (42 U.S.C. 1437a(a)) is amended --

(1) in paragraph (2)(B)(i) --

(A) in the matter preceding subclause (I) --

(i) by striking "Except as otherwise provided under this clause, each" and inserting "Each";

(ii) by inserting after "which shall" the following: "not be lower than 80 percent of the applicable fair market rental established under section 8(c) of this Act and which shall";

(B) by striking the undesignated matter following subclause (II) and inserting the following: "Public housing agencies must comply by September 30, 2013, with the requirement of this clause, except that if a new flat rental amount for a dwelling unit will increase a family's existing rental payment by more than 35 percent, the new flat rental amount shall be phased in as necessary to ensure that the family's existing rental payment does not increase by more than 35 percent annually. The preceding sentence shall not be construed to require establishment of rental amounts equal to 80 percent of the fair market rental in years when the fair market rental falls from the prior year.";

(2) in paragraph (3)(A) --

(A) by striking "not more than $50" and inserting "$75";

(B) in clause (i) by striking ", which shall be determined by the agency,"; and

(C) in clause (ii) by striking ", which amount shall be determined by the Secretary".

(b) Section 202(c)(3) of the Housing Act of 1959 (12 U.S.C. 1701q(c)(3)), Section 811(d)(3) of the Cranston Gonzalez National Affordable Housing Act (42 U.S.C 8013(d)(3)), and Section 236(f)(2) of the National Housing Act (12 U.S.C. 1715z-1(f)(2)) are each amended --

(1) at the end of subparagraph (B), by striking "or";

(2) at the end of subparagraph (C), by inserting ", or" or "; or", as appropriate; and

(3) after subparagraph (C), by adding the following new subparagraph:

"(D) A minimum monthly rental amount (which shall include any amount allowed for utilities) of $75.

"(i) Exemption for financial hardship.-- Subject to clause (ii), the Secretary shall immediately grant a request for an exemption from application of the minimum monthly rental amount under this subparagraph to any family unable to pay such amount because of financial hardship, which shall include situations in which --

"(I) the family has lost eligibility for or is awaiting an eligibility determination for a Federal, State, or local assistance program, including a family that includes a member who is an alien lawfully admitted for permanent residence under the Immigration and Nationality Act who would be entitled to public benefits but for title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996;

"(II) the family would be evicted as a result of the imposition of the minimum rent requirement under subparagraph (D);"

"(III) the income of the family has decreased because of changed circumstance, including loss of employment;

"(IV) a death in the family has occurred; and

"(V) other circumstances result in financial hardship, as may be determined by the Secretary.

"(ii) Waiting period.-- If a resident requests a financial hardship exemption and the Secretary reasonably determines the hardship to be of a temporary nature, an exemption shall not be granted during the 90-day period beginning upon the making of a request for the exemption. A resident may not be evicted during such 90-day period for nonpayment of rent. In such a case, if the resident thereafter demonstrates that the financial hardship is of a long-term basis, the Secretary shall retroactively exempt the resident from the applicability of

the minimum rent requirement for such 90-day period.".

(c) Section 101(d) of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s(d)) is amended by striking "30 per centum of the tenant's adjusted income" and inserting "the tenant's rental charges".

(d) Section 101(e) of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s(e)) is amended by --

(1) inserting the following new paragraph (2):

"(2) The Secretary, by regulation shall establish a minimum monthly rent payable by residents of units assisted by the Rent Supplement program that, to the extent practicable, shall be consistent with other rental assistance programs of the Department."; and

(2) by redesignating the remaining paragraphs accordingly.

Explanation of this Section: This provision: (1) requires PHAs to set flat rents at levels no lower than 80 percent of the fair market rent, except that PHAs will have to phase-in flat rent increases as necessary to ensure that a family's existing rental payment does not increase by more than 35 percent ; and (2) establishes a minimum rent of $75 per month with a hardship exemption across HUD rental assistance programs, including Public Housing, Tenant-Based Rental Assistance, and project-based rental programs.

Proposed Action: The Department proposes the addition of this provision in 2013. Both policies reduce Federal costs while protecting against hardship and will not reduce the number of families served.

Sec. 224. *Notwithstanding any provision of the United States Housing Act of 1937 concerning the determination of tenant rent obligations, and of section 23 of such Act (42 U.S.C. 1437u) concerning deposits to escrow accounts, the Secretary may, during the 5-year period beginning on the date of enactment of this Act, allow the use of funds made available by the Secretary to public housing agencies to carry out rent policy demonstrations involving a limited number of families assisted under the 1937 Act, for the purpose of determining the effectiveness of different rent policies in encouraging families to obtain employment, increase their incomes, and achieve economic self-sufficiency, while reducing administrative burdens and maintaining housing stability. Such demonstrations shall including public housing agencies of various sizes, and may include providing income disregards, family self-sufficiency accounts, and policies under which families pay rent in amounts different from 30 percent of their adjusted income. The Secretary shall publish a report regarding the results and effectiveness of any demonstrations conducted under the authority of this section.*

Explanation of this Section: This provision helps the Department conduct rent policy demonstrations to determine the effectiveness of different rental policies and how the effect on residents on employment opportunities, incomes, and achievement of economic self-sufficiency, while reducing administrative burdens and maintaining housing stability.

Proposed Action: The Department proposes the addition of this provision in 2013. This provision will assist the Department in developing effective policies that encourage employment and increase earned income among assisted families.

Sec. 225. *INSPECTIONS.*
(a) Section 8(o)(8) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(8)) is amended --

(1) by redesignating subparagraph (E) as subparagraph (G); and

(2) by striking subparagraph (D) and inserting the following new subparagraphs:

"(D) BIENNIAL INSPECTIONS.

(i) REQUIREMENT. Each public housing agency providing assistance under this subsection (or other entity, as provided in paragraph (11)) shall, for each assisted dwelling unit, make inspections not less often than biennially during the term of the housing assistance payments contract for the unit to determine whether the unit is maintained in accordance with the requirements under subparagraph (A).

"(ii) USE OF ALTERNATIVE INSPECTION METHOD. The requirements under clause (i) may be complied with by use of inspections that qualify as an alternative inspection method pursuant to subparagraph (E).

"(iii) RECORDS. The public housing agency (or other entity) shall retain the records of the inspection for a reasonable time and shall make the records available upon request to the Secretary, the Inspector General for the Department of Housing and Urban Development, and any auditor conducting an audit under section 5(h) of this Act.

"(E) ALTERNATIVE INSPECTION METHOD. An inspection of a property shall qualify as an alternative inspection method for purposes of this subparagraph if –

"(i) the inspection was conducted pursuant to requirements under a Federal, State, or local housing program (including the Home investment partnership program under title II of the Cranston-Gonzalez National Affordable Housing Act and the low-income housing tax credit program under section 42 of the Internal Revenue Code of 1986); and

"(ii) pursuant to such inspection, the property was determined to meet the standards or requirements regarding housing quality or safety applicable to properties assisted under such program, and, if a non-Federal standard or requirement was used, the public housing agency has certified to the Secretary that such standard or requirement provides the same (or greater) protection to occupants of dwelling units meeting such standard or requirement as would the housing quality standards under subparagraph (B).

"(F) INTERIM INSPECTIONS. Upon notification to the public housing agency, by a family (on whose behalf tenant-based rental assistance is provided under this subsection) or

by a government official, that the dwelling unit for which such assistance is provided does not comply with the housing quality standards under subparagraph (B), the public housing agency shall inspect the dwelling unit --

"(i) in the case of any condition that is life-threatening, within 24 hours after the agency's receipt of such notification, and

"(ii) in the case of any condition that is not life-threatening, within 15 days after the agency's receipt of such notification.".

(b) EFFECTIVE DATE. The amendments in subsection (a) shall take effect upon such date as the Secretary determines, in the Secretary's sole discretion, through the Secretary's publication of such date in the Federal Register, as part of regulations promulgated, or a notice issued, by the Secretary to implement such amendments.

Explanation of this Section: This provision changes the requirement for mandatory inspection of units from on to every 2 years. In addition, PHAs will be able to satisfy inspections requirements through alternative standards, as long as they are established by other Federal housing programs.

Proposed Action: The Department proposes the addition of this provision in 2013. This provision will reduce administrative burdens for PHAs and allows PHAs to focus limited resources on higher-risk units.

Sec. 226*. Notwithstanding any other provision of the United States Housing Act of 1937 (42 U.S.C. 1437f et seq.) and any provision in this Act under the headings "Public Housing Operating Fund", "Public Housing Capital Fund", "Tenant-Based Rental Assistance", and "General Provisions, Department of Housing and Urban Development" (except for provisions establishing the amount of funding made available), of the funds provided by this Act under the headings "Public Housing Operating Fund" and "Public Housing Capital Fund", and of the administrative fees in this Act under the heading "Tenant-Based Rental Assistance", a percentage of such funds and fees (which percentage the Secretary shall establish by notice published in the Federal Register) may be set aside and used by a public housing agency for the Consolidated Opportunities for Resident Enrichment (CORE) Flexibility program, in accordance with its annual public housing agency plan, which shall include such CORE information as requested by the Secretary: Provided, That a public housing agency shall use such set-aside funds and fees to provide flexibility for supportive services activities for families that receive assistance under either section 8(o) or 9 of the United States Housing Act of 1937 (42 U.S.C. 1437f(o) or 42 U.S.C. 1437g), including activities such as service coordination, case management, direct services, services to keep the elderly or persons with disabilities successfully housed, and other activities that promote positive resident outcomes related to education, health, safety, economic security and self-sufficiency, and quality of life: Provided further, That funds and fees may be set aside pursuant to this section for a period of up to two years, after which any unexpended funds shall be used only for the original purposes for which such funds and fees were made available: Provided further, That the Secretary shall develop and publish, in the Federal Register, a notice regarding the use of such set-aside funds and fees, in which the*

Secretary shall provide program guidelines that include (but are not limited to) eligibility threshold, eligible activities, reporting and accountability, and other matters as determined by the Secretary.

Explanation of this Section: This provision provides PHAs the flexibility to use a percent, to be determined by the Secretary, of their Public Housing and Tenant-Based Rental Assistance resources for a broad range of purposes, including, but not limited to, service coordination, case management, and some direct services to assist residents towards self-sufficiency.

Proposed Action: The Department proposes the addition of this provision in 2013. This provision will provide PHAs with much-needed flexibility so that they can use housing as a platform for improving the quality of life for their Public Housing and Section 8 Housing Choice Voucher families.

Sec. 227. *Subsection (d) of section 184 of the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-13a) is amended to read as follows:*

"(d) Guarantee fee. The Secretary shall establish and collect, at the time of issuance of the guarantee, a fee for the guarantee of loans under this section, in an amount not exceeding 3 percent of the principal obligation of the loan. The Secretary may also establish and collect annual premium payments in an amount not exceeding 1 percent of the remaining guaranteed balance (excluding the portion of the remaining balance attributable to the fee collected at the time of issuance of the guarantee). The Secretary shall establish the amount of the fees and premiums by publishing a notice in the Federal Register. The Secretary shall deposit any fees and premiums collected under this subsection in the Indian Housing Loan Guarantee Fund established under subsection (i).".

Explanation of this Section: This provision allows the Department to change the fee structure for Native American borrowers under the Indian Housing Loan Guarantee Program to collect fees to three percent upfront and one percent annually. This increase in fees will allow for an increase in loans under this program.

Proposed Action: The Department proposes the addition of this provision in 2013. Due to the massive growth of this program over the last 15 years, this fee increase will allow the Department to generate the additional subsidy necessary to guarantee more loans.

Sec. 228. *Notwithstanding any other provision of the United States Housing Act of 1937 (42 U.S.C. 1437f et seq.), any amounts made available under this title under the headings "Public Housing Capital Fund" and "Public Housing Operating Fund" and allocated to a public housing agency for activities under sections 9(d)(1) and 9(e)(1) of the Act (42 U.S.C. 1437g(d)(1) and 42 U.S.C. 1437g(e)(1)) may be used by such agency for any eligible activities under sections 9(d)(1) and 9(e)((1), in addition to the other purposes for which the amounts may be used under such headings: Provided, That an activity funded pursuant to this section shall be subject to the requirements otherwise governing activities under sections 9(d)(1) or 9(e)(1), as applicable.*

Explanation of this Section: This provision provides all PHAs with full fungibility of their operating and capital funds.

Proposed Action: The Department proposes the addition of this provision in 2013. This additional flexibility for PHAs is the first step towards the proposed full consolidation of the Operating Fund and Capital Fund programs, which will complete the transition to asset management, simplify the program, and reduce administrative burden on HUD and PHAs.

Sec. 229. *GINNIE MAE SECURITIZATION.*
(a) Paragraph (8) of section 542(b) of the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-22(b)) is amended in its title by deleting "Prohibition on" and by revising the text of paragraph (8) to read as follows:

"The Government National Mortgage Association shall not securitize any multifamily loans insured or reinsured under this subsection, except as provided herein. The Government National Mortgage Association may, at the discretion of the Secretary, securitize any multifamily loan, provided that --

"(A) the Federal Housing Administration provides mortgage insurance based on the unpaid principal balance of the loan, as shall be described in the Risk Share Agreement

"(B) the Federal Housing Administration shall not require an assignment fee for mortgage insurance claims related to the securitized mortgages and

"(C) any successors and assigns of the risk share partner (including the holders of credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named) shall not assume any obligation under the risk-sharing agreement and may assign any defaulted loan to the Federal Housing Administration in exchange for payment of the mortgage insurance claim.
"The risk-sharing agreement must provide for reimbursement to the Secretary by the risk share partner(s) for either all or a portion of the losses incurred on the loans insured.".

(b) Paragraph (6) of section 542(c) of the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-22(c)) is amended in its title by deleting "Prohibition on" and by revising the text of paragraph (6) to read as follows:

"The Government National Mortgage Association may, at the discretion of the Secretary, securitize any multifamily loan insured under this subsection, provided that --

"(A) the Federal Housing Administration provides mortgage insurance based on the unpaid principal balance of the loan, as shall be described by regulation,

"(B) the Federal Housing Administration shall not require an assignment fee for mortgage insurance claims related to the securitized mortgages, and

"(C) any successors and assigns of the risk share partner (including the holders of credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by

and through a trustee therein named) shall not assume any obligation under the risk-sharing agreement and may assign any defaulted loan to the Federal Housing Administration in exchange for payment of the mortgage insurance claim.

"The risk-sharing agreement must provide for reimbursement to the Secretary by the risk share partner(s) for either all or a portion of the losses incurred on the loans insured.".

(c) Clause (ii) of the first sentence of section 306(g)(1) of the National Housing Act (12 U.S.C. 1721(g)(1)) is amended by striking the semi-colon and inserting a comma, and by inserting before the period at the end the following: ", or which are insured under subsection (b) or (c) of section 542 of the Housing and Community Development Act of 1992 (12 U.S.C.1715z-22), subject to the terms of paragraph (8) and (6), respectively, of such subsection".

Explanation of this Section: Sections 542(b)(8) and (c)(6) as enacted (12 U.S.C.1715z – 22(b)(8) and (c)(6)) prevent securitization of risk-sharing loans through Ginnie Mae-guaranteed securities. This is because, if a risk-sharing loan is securitized and the issuer defaults, Ginnie Mae, as assignee of the loan, would become liable for the risk-sharing obligations of the issuer, as would any other issuer to which Ginnie Mae might attempt to transfer the loan.

This proposal amends Sections 542(b) and (c) to remove the prohibition against securitization of these loans through Ginnie Mae, so long as the scope of insurance on the loans falls within the parameters of amended Section 542(b) and (c). Specifically, while the loans may be the subject of a risk sharing agreement between the originating mortgagee and FHA, successors and assignees of the originating mortgagee shall not be liable for the obligations under the risk sharing agreement. Upon assignment of a loan to FHA by an assignee/successor, FHA shall pay an insurance claim based on the unpaid principal balance. In addition, FHA shall not require an assignment fee for any loan insured under these subsections if the loan is securitized through Ginnie Mae.

The related conforming amendment includes language in Ginnie Mae's Charter Act to authorize securitization of loans insured under Subsections 542(b) and (c) as amended.

These amendments will allow Ginnie Mae to provide secondary market liquidity to support a broader range of housing financed through FHA risk-sharing programs, including the small (5-49 units) affordable multifamily developments, and improve existing financing options.

Proposed Action: The Department proposes the addition of this provision in 2013.

Sec. 230*. The fourth proviso under the "Rental Assistance Demonstration" heading of the Department of Housing and Urban Development Appropriations Act, 2012 is amended by striking "or section 8(e)(2)".*

Explanation of this Section: This provision exempts Moderate Rehabilitation (MR) properties from the 60,000 unit cap on properties that can convert under the enacted Rental Assistance Demonstration (RAD). The 60,000 unit cap would apply to Public Housing conversions alone, while the number of MR conversions (at existing subsidy levels) would not be constrained.

Proposed Action: The Department proposes the addition of this provision in 2013 to enable a demonstration and complete evaluation of Public Housing conversions while also preserving as many viable MR properties as possible.

Sec. 231.
(a) Subsection (b) of section 225 of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 12755) is amended by inserting at the end the following sentence: "Such 30 day waiting period is not required if the grounds for the termination or refusal to renew involve a direct threat to the safety of the tenants or employees of the housing, or an imminent and serious threat to the property (and the termination or refusal to renew is in accordance with the requirements of State or local law).".

(b) Section 231 of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 12771) is amended --

(1) in subsection (b) by striking "make such funds available by direct reallocation" and all that follows through "were recaptured" and inserting "reallocate the funds by formula in accordance with section 217(d) of this Act (42 U.S.C. 12747(d))"; and

(2) by striking subsection (c).

Explanation of this Section: Both provisions make changes to the HOME Investment Partnership Program. Provision (a) facilitates eviction of HOME rental unit tenants who pose a direct threat to tenants or employees of the housing or are an imminent, serious threat to the property. Provision (b) allows recaptured Community Housing Development Organization funds to be reallocated by formula as regular HOME funds.

Proposed Action: The Department proposes the addition of this provision in 2013 to improve the HOME program.

Sec. 232.
(a) Section 3(b) of the United States Housing Act of 1937 (42 U.S.C. 1437a) is amended --

(1) in paragraph (2), by designating the first sentence as subparagraph (A), the second sentence as subparagraph (B), and the remaining sentences as subparagraph (D), and by inserting after subparagraph (B) the following new subparagraph (C):

"(C) The term extremely low-income families means very low-income families whose incomes do not exceed the higher of –

"(i) the poverty guidelines updated periodically by the Department of Health and Human Services under the authority of section 673(2) of the Community Services Block Grant Act applicable to a family of the size involved (except that this clause shall not apply in the case of public housing agencies located in Puerto Rico or any other territory or possession of the United States); or

"(ii) 30 percent of the median family income for the area, as determined by the Secretary, with adjustments for smaller and larger families (except that the Secretary may establish income ceilings higher or lower than 30 percent of the median for the area on the basis of the Secretary's findings that such variations are necessary because of unusually high or low family incomes)."; and

(2) in paragraph 5(A), by revising subparagraph (ii) to read as follows:

"(ii) Health and medical expenses. -- The amount, if any, by which 10 percent of annual family income is exceeded by the sum of

"(I) in the case of any elderly or disabled family, any unreimbursed health and medical care expenses; and

"(II) any unreimbursed reasonable attendant care and auxiliary apparatus expenses for each handicapped member of the family, to the extent necessary to enable any member of such family to be employed.".

(b) Section 16 of the United States Housing Act of 1937 (42 U.S.C. 1437n) is amended --

(1) in subsection (a)(2)(A),

(2) in subsection (b)(1), and

(3) in subsection (c)(3), by striking "families whose incomes" and all that follows through "low family incomes" and inserting "extremely low-income families".

Explanation of this Section: This provision : (1) broadens the extremely-low income targeting requirements by applying it to families with the higher of 30 percent of Area Median Income or Federal poverty level; and (2) increases the threshold for deducting unreimbursed medical expenses from 3 percent to 10 percent of family income.

Proposed Action: The Department proposes the addition of this provision in 2013 to better target rental assistance to the working poor, simplify administration of the medical expenses deduction, and reduce Federal costs.

Sec. 233. *Notwithstanding Section 24(o) of the United States Housing Act of 1937 (42 U.S.C. 1437v(o)), amounts made available in prior appropriations Acts under the heading "Revitalization of Severely Distressed Public Housing (HOPE VI)" or under the heading "Choice Neighborhoods Initiative" may continue to be provided as assistance pursuant to such Section 24.*

Explanation of this Section: The provision allows HUD to continue to obligate and expend prior-year HOPE VI and Choice Neighborhood funds that otherwise would sunset on September 30, 2012.

Proposed Action: The Department proposes the addition of this provision in 2013 to ensure the continued availability of prior-year HOPE VI and Choice Neighborhoods funding.

Sec. 234. *PROJECT RENTAL ASSISTANCE AUTHORITY. Section 202(f)(2) of the Housing Act of 1959 (12 U.S.C. 1701q(f)(2)) is amended –*

(a) in paragraph (A) --

(1) by striking the matter before clause (i) and inserting the following: "The Secretary shall establish procedures to delegate review and processing of projects to a State or local housing agency that--"; and

(2) in clause (iii), by striking "capital advance" and inserting "funding", and by replacing the comma with a semi-colon;

(b) in subparagraph (B), by striking "capital advances" and inserting "funding under this section";

(c) in subparagraph (C), by striking the first sentence;

(d) by redesignating subparagraph (D) as subparagraph (E), and in the redesignated subparagraph (E) –

(1) by striking "a capital advance" and inserting "funding under this section"; and

(2) by striking "capital advance amounts or project rental assistance" and inserting "funding under this section"; and

(e) by inserting the following new subparagraph after subparagraph (C):

"(D) Assistance under subsection (c)(2) may be provided for projects for which the applicable State agency responsible for health and human services programs, and the applicable State agency designated to administer or supervise the administration of the State plan for medical assistance under title XIX of the Social Security Act, have entered into such agreements as the Secretary considers appropriate--

"(i) to identify the target populations to be served by the project;

"(ii) to set forth methods for outreach and referral; and

"(iii) to make available appropriate services for tenants of the project.".

Explanation of this Section: This provision would expand the existing Delegated Processing Agency authority to facilitate provision of Section 202 operating assistance-only contracts to fund supportive housing units aligned with State health care priorities. Funded projects must be

fully leveraged with other capital resources and only require Section 202 funds for operating assistance. These requested changes will allow for improved coordination and more cost-effective administration of available HUD rental assistance funds with other State and Federal assistance. This proposed authority will draw on lessons learned from the new Section 811 Project Rental Assistance demonstration authorized by the Frank Melville Supportive Housing Investment Act of 2010.

Proposed Action: The Department proposes enactment of this provision.

Sec. 235. *The proviso under the "Community Development Fund" heading in Public Laws 109-148, 109-234, 110-252, and 110-329 which requires the Secretary to establish procedures to prevent duplication of benefits and to report to the Committees on Appropriations on all steps to prevent fraud and abuse is amended by striking "quarterly" and inserting "annually".*

Explanation of this Section: This provision changes the frequency of submitting reports to the Committees on Appropriations on establishing procedures to prevent duplication of benefits under the Community Development Fund for specific disaster supplemental from quarterly to annually.

Proposed Action: The Department proposes the addition of this provision in 2013. Quarterly reports demonstrate very little change in progress and the reduced frequency of reports will be more meaningful and useful for the Committees.

Mr. Latham #11

Committee Reports

Question: In table format, please list all reports due to the Committee for fiscal year 2012, their delivery dates, and actual delivery dates. For any reports that were late, please explain why the reports were late.

Answer: See attached report.

Microsoft Office
Word 97 - 2003 Docu

Mr. Latham #12

Carryover

Question: Please provide a chart with the carryover for each program for the last ten years.

Answer: See attached chart.

10-Year carryover.xls

Mr. Latham #13

HUD's Organization Charts

Question: Please provide an organizational chart for each office at HUD.

Answer: See attached charts.

Org charts.PDF

Regions Org charts.PDF

Mr. Latham #14

FTE and Personnel Costs

Question: Please provide a breakout of FTE and Personnel Costs for the offices funded through Departmental Management for FY 2002 through FY 2012.

Answer: Below is a breakout of FTE and Personnel Costs for the offices funded through Departmental Management (DM) for FYs 2002 through 2012. DM consists of the Office of the Secretary, Office of the Deputy Secretary, Public Affairs, Congressional and Intergovernmental Relations (CIR), Office of Hearings and Appeals, and the Office of Small and Disadvantaged Business Utilization (OSDBU). Fiscal year 2007 and prior, the Department tracked and reported financial data for DM under the Office of the Secretary/Deputy Secretary. In FY 2008, the Department began to track financial data by DM office; however, FTE tracking by office commenced in FY 2009. From FYs 2008 through 2011, dollar amounts reflect personnel and non-personnel expenses for this account.

	2012 Estimate	
Program Area	PS & NPS	FTE
Office of Secretary/Deputy Secretary (OSEC)	$3,572,000	18.4
Office of the Deputy Secretary (DEPSEC)	$1,200,000	6.2
Public Affairs	$3,515,000	25.1
Congressional & Intergovernmental Relations (CIR)	$2,400,000	17.1
Office of Hearings & Appeals	$1,700,000	10
Office of Small & Disadvantaged Business Utilization (OSDBU)	$741,000	5.1
DM Total	**$13,128,000**	**81.9**

	2011 Actual		2010 Actual	
Program Area	PS & NPS	FTE	PS & NPS	FTE
Office of Secretary/Deputy Secretary (OSEC)	$ 4,458,433	24.3	$4,469,925	24.7
Public Affairs	$3,738,539	23.3	$3,638,065	20.6
Congressional & Intergovernmental Relations (CIR)	$2,565,901	19.3	$2,307,624	17.8
Office of Hearings & Appeals	$1,554,262	10	$1,596,246	10
Office of Small & Disadvantaged Business Utilization (OSDBU)	$684,083	4.7	$630,676	4.7
DM Total	**$13,001,218**	**81.6**	**$12,642,535**	**77.8**

Program Area	2009 Actual PS & NPS	2009 Actual FTE	2008 Actual PS & NPS	2008 Actual FTE
Office of Secretary/Deputy Secretary (OSEC)	$3,431,590	20.7	$3,487,352	70
Public Affairs	$2,557,630	14.7	$2,240,996	Included w/ OSEC
Congressional & Intergovernmental Relations (CIR)	$2,214,104	19.4	$2,432,663	
Office of Hearings & Appeals	$1,459,067	10.8	$1,145,101	
Office of Small & Disadvantaged Business Utilization (OSDBU)	$442,921	4.2	$503,899	
DM Total	**$10,105,312**	**69.8**	**$9,810,012**	**70**

Program Area	2007 Actual PS	2007 Actual FTE	2006 Actual PS	2006 Actual FTE
Office of Secretary/Deputy Secretary (OSEC)	$9,302,568	84	$8,743,257	79
Public Affairs	Included w/ Office of the Secretary		Included w/ Office of the Secretary	
Congressional & Intergovernmental Relations (CIR)				
Office of Hearings & Appeals				
Office of Small & Disadvantaged Business Utilization (OSDBU)				
DM Total	**$9,302,568**	**84**	**$8,743,257**	**79**

Program Area	2005 Actual PS	2005 Actual FTE	2004 Actual PS	2004 Actual FTE
Office of Secretary/Deputy Secretary (OSEC)	$9,191,590	81	$8,846,206	84
Public Affairs	Included w/ Office of the Secretary		Included w/ Office of the Secretary	
Congressional & Intergovernmental Relations (CIR)				
Office of Hearings & Appeals				
Office of Small & Disadvantaged Business Utilization (OSDBU)				
DM Total	**$9,191,590**	**81**	**$8,846,206**	**84**

Program Area	2003 Actual PS	2003 Actual FTE	2002 Actual PS	2002 Actual FTE
Office of Secretary/Deputy Secretary (OSEC)	$9,724,602	101	$8,302,303	81
Public Affairs	Included w/ Office of the Secretary		Included w/ Office of the Secretary	
Congressional & Intergovernmental Relations (CIR)				
Office of Hearings & Appeals				
Office of Small & Disadvantaged Business Utilization (OSDBU)				
DM Total	**$9,724,602**	**101**	**$8,302,303**	**81**

Mr. Latham #15

Political Appointments

Question: Please provide a list of all political appointments in the Department. Please include the title, grade, salary and bonus or award given to each position, the office the position is in, and the Salaries and Expenses fund paying their salary.

Answer: The attached report lists all Political Appointments in the Department as of April 30, 2012.

Political
Appointments in the I

Mr. Latham #16

Political Appointees

Question: Please provide a table with the number of political appointees per office for the last five years.

Answer: See attached table. .

Number of Political Appointees Per Office

Mr. Latham #17

Current SES Employees

Question: Please provide a list of all current SES employees on board by office. Please include the title, grade, salary and bonus or award given to each position, the office the position is in, and the Salaries and Expenses fund paying their salary.

Answer: See attached chart.

List of SES employees on-board

Mr. Latham #18

Current General Schedule Employees

Question: Please provide a list of all current General Schedule employees on board by office. Please include the title, grade, salary, bonus or award given, overtime earned and comp time earned, the office the position is in, and the Salaries and Expenses fund paying their salary.

Answer: Attached are four reports which list of all current General Schedule employees on board by office.

Report #1 – GS Schedule Employees (Title, Grade, Salary)

HU01
BWGSROST-DMC - H

Report # 2 –FY 2011 GS-Employees Comp-Time and OT

Copy of Report =
CTOT2026 FY 2011 C

Report # 3 –FY 2012 GS-Employees Comp-Time and OT

Copy of Report =
CTOT0107 FY 2012 C

Report # 4 –GS/GM employees in "Salaries and Expenses" account that received /processed awards in fiscal year 2012.

Copy of PSAWDFXL
(FY 2012 GS and GM

Mr. Latham #19

Funding for SES Awards

Question: Please provide a table of funding for SES awards by office for the last five years.

Answer: Attached is a table of funding for SES awards by office for fiscal years 2007-20011.

SES AWARDS - Last 5 years.xlsx

Mr. Latham #20

Vacant Positions

Question: Please provide a list of all vacant positions at the Department, please indicate, which positions the Department anticipates filing by the end of the year and where the Department is in the hiring process with each of these positions.

Answer: See attached list.

Copy of 80-Day Tracker 05-16-2012_

Mr. Latham #21

Hiring Process

Question: Please detail the steps the Department has taken to improve the hiring process. Please include the current number of days it takes the Department to take a position from announcement to bringing staff on board and the steps the Department is taking to reduce this timeline.

Answer: The Department's average Time-to-Hire (T2H) at the end of the 2nd quarter, FY 2012, was 120 days. The Offices of the Chief Human Capital Officer (OCHCO) and Human Capital Services (OHCS) have taken the following steps to reduce T2H processes:

- The Acting CHCO disseminated instructions to Program Offices requesting approved Hiring Plans, with priorities identified, to ensure recruitment efforts were focused based on the mission and support needs of the Department;

- Human Resources (HR) Managers and Staffing Specialists in OHCS consult with the Hiring Managers and Administrative Office (AO) staff, during the planning phase, to discuss hiring needs, identify the appropriate grade level(s), and recruitment sources to attract highly qualified candidates;

- HR Specialists collaborate with AOs to address documents needed to complete Power Recruit packages, before submission to the Recruitment & Staffing Division (RSD);

- To address staff resource challenges in RSD and strengthen processes needed to achieve greater efficiencies, OHCS redistributed work among staff. To facilitate the submission of complete Power Recruit packages by AOs, review and classification of new position descriptions (PDs) is on the fast track. In addition, consultation services are provided to Hiring Managers to assist with the development of assessment tools, including job analyses, crediting plans, and questionnaires to improve applicant screening results;

- A library of updated PDs and assessment tools is being developed and stored electronically to speed the process of accessing information necessary for posting vacancy announcements for similar jobs across the Department;

- Screening of applicants external to the Federal Government, who apply under Delegated Examining (DE) procedures exercised under authority granted by the Office of Personnel Management (OPM), has been assigned to expert staff to improve the quality of certification review procedures, including proper adjudication of veterans' preference;

- Recruitment time under DE procedures can be reduced to 5 days for positions that typically attract a large pool of applicants;

- OHCS is utilizing contract services under an Interagency Agreement with OPM to augment under-staffing in RSD.

- HR Managers and Specialists conduct weekly customer service meetings with Program Offices to discuss the status of recruitment actions and identify bottlenecks;
- HR Specialists encourage the Hiring Officials to hire veterans and persons with targeted disabilities, through various programs outside of the normal recruitment process;
- Workflow processes between RSD and the Personnel Security Division have been streamlined to improve accountability and expedite clearances for on-boarding.

Mr. Latham #22

Employee Buyouts

Question: Please provide a list of all employee buyouts in the last five years. Please include the amount, program office, and employee's years of service.

Answer: Attached is a list of all employee buyouts in the last 5 years.

HUD BUYOUT FY
2007- FY 2011 (repor

Mr. Latham #23

New Positions for FY 2013

Answer: Please provide a listing of all new positions requested in FY2013, showing the position title, grade, salary, organizational component, and basic description of the position responsibilities.

Answer: Please see attached.

New Positions
Requested in FY2013

Mr. Latham #24

Organizational/Staffing Changes for FY 2013

Question: Please provide details of all organizational/staffing changes included in the fiscal year 2013 Budget Request. Please include a breakout of the number of FTE who would be working on each new initiative proposed in the budget request.

Answer: The Department is requesting 8,638 full time equivalent (FTE) positions for FY 2013, an increase of 44 FTE above FY 2012. The following chart also shows the FTE levels by office for the last 3 fiscal years in accordance with the guidance provided in HUD's enacted budget for FY 2012.

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2012 v FY 2013
Immediate Office of the Secretary	24.7	24.3	18.4	19.6	1.2
Office of the Deputy Secretary and Chief Operating Officer	0	0	6.2	6.3	0.1
Office of Hearings and Appeals	10	10	10	10.5	0.5
Office of Congressional and Intergovernmental Relations	17.8	19.3	17.1	19	1.9
Office of the Assistant Secretary for Public Affairs	20.6	23.3	25.1	24.9	-0.2
Office of Small and Disadvantaged Business Utilization	4.7	4.7	5.1	4.9	-0.2
Office of Chief Human Capital Officer	593.5	542.5	524	454.9	-69.1
Office of Departmental Operations and Coordination	75.3	73.1	67.1	67.4	0.3
Office of Field Policy and Management	374.3	363.9	341.8	347	5.2
Office of the Chief Procurement Officer	117.9	101.9	109.4	120.6	11.2
Office of the Chief Financial Officer	204.6	195.3	202.1	194.3	-7.8
Office of the Chief Information Officer	292.8	308.8	305.3	279.7	-25.6
Office of General Counsel	642.4	636.3	628.2	629	0.8
Office of Departmental Equal Employment Opportunity	24.2	23.1	22.2	19.7	-2.5
Office of Faith-based and Neighborhood Partnerships	8.4	7.7	8.2	8.4	0.2
Office of Sustainable Housing and Communities	6.3	15.5	17.1	18	0.9
Office of Strategic Planning and Management	6.3	27.2	27.9	29.6	1.7
Office of Disaster and Emergency Management	0	0	0	42.2	42.2
Public and Indian Housing	1519.2	1508	1505.8	1554.5	48.7
Community Planning and Development	812.7	800.9	789.9	811.7	21.8
Housing	3231.7	3222.9	3174.1	3190.9	16.8
Policy Development and Research	140.5	155.3	151.2	145.4	-5.8
Fair Housing and Equal Opportunity	576.3	572	580.7	587.4	6.7
Office of Healthy Homes and Lead Hazard Control	59.2	62.1	58	52.2	-5.8
Total	**8763.4**	**8698.1**	**8594.9**	**8638.1**	**43.2**

A summary of the FTE changes are as follows:

Immediate Office of the Secretary (SEC). SEC requests 19.6 FTE for FY 2013, an increase of 1.2 FTE over the FY 2012 requested level of 18.4.

Office of the Deputy Secretary and Chief Operating Officer (DEP/COO). DEP/COO requests 6.3 FTE for FY 2013, an increase of .1 FTE over the FY 2012 requested level of 6.2.

Office of Hearings and Appeals (OHA). OHA requests 10.5 FTE for FY 2013, an increase of .5 FTE over the fiscal year 2012 requested level of 10.

Office of Congressional and Intergovernmental Relations (CIR). CIR requests 19 FTE for fiscal year 2013, an increase of 1.9 FTE over the fiscal year 2012 requested level of 17.1. The increase in FTE will allow CIR to have a staffing level consistent with FY 2011, in order to serve the Department and the Stakeholders.

Office of the Assistant Secretary for Public Affairs (PA). PA requests 24.9 FTE for FY 2013, which represents a decrease of .2 FTE from the FY 2012 requested level of 25.1.

Office of the Small and Disadvantaged Business Utilization (OSDBU). OSDBU requests 4.9 FTE for FY 2013, which represents a decrease of 5.1 FTE from the FY 2012 requested level of 5.1.

Office of the Chief Human Capital Officer (CHCO). CHCO requests 454.9 FTE for FY 2013, which represents a decrease of 69.1 FTE from the FY 2012 requested level of 524.0. This includes a transfer of 20 FTE to establish the Office of Disaster and Emergency Management (ODEM) in FY 2013. The remaining amount of the reduction is simply a reduction to the staffing level in order to make increases to other offices within the Department.

Office of Departmental Operations and Coordination (ODOC). ODOC requests 67.4 FTE for FY 2013, which represents an increase of .3 FTE over the FY 2012 requested level of 67.1.

Field Policy and Management (FPM). FPM requests 347 FTE for FY 2013, which represents an increase of 5.2 FTE over the FY 2012 requested level of 347. The additional 5.2 FTE will be used to fill critical staffing vacancies in the Field. This staffing level will allow FPM to focus on its core mission of furthering and broadening local partnerships and collaboration efforts and increase its role in providing data analyses of the Recovery Act and other initiatives without any reduction in service to customer base. This staffing level will guarantee FPM's success under Strategic Goal of 5 in transforming the way FPM/HUD does business.

Office of Chief Procurement Officer (CPO). CPO requests 120.6 FTE for FY 2013, an increase of 11.2 FTE over the fiscal year 2012 requested level of 109.4. This includes a realignment of 18 FTE to OCPO from OCIO. In FY 2011 these FTE were funded in the Working Capital Fund and in FY 2012, FTE and funding that had been supporting procurement functions for the WCF were funded in CIO. This will properly align the function of these 18 FTE to the office.

Office of Chief Financial Officer (CFO). CFO requests 194.3 FTE for FY 2013, a decrease of 7.8 FTE from the FY 2012 requested level of 202.1. This includes a realignment of 2 FTE to OCFO from OCIO. In FY 2011 these FTE were funded in the Working Capital Fund (WCF) and in FY 2012, FTE and funding that had been supporting budget/financial management for the WCF were funded in CIO. This will properly align the function of these 18 FTE to the office.

Office of the Chief Information Officer (CIO). PDR requests 279.7 FTE for FY 2013, which represents a decrease of 25.6 FTE from the FY 2012 requested level of 305.3. This includes a realignment of 20 FTE from OCIO to OCPO and OCFO. In FY 2011 these FTE were funded in the Working Capital Fund and in FY 2012, FTE and funding that had been supporting procurement and budget/financial management for the WCF were funded in CIO. This will properly align the function of these 20 FTE to their correct offices.

Office of General Counsel (OGC). OGC requests 629 FTE for FY 2013, which represents an increase of .8 FTE over the FY 2012 requested level of 628.2

Office of Departmental Equal Employment Opportunity (ODEEO). DEEO requests 19.7 FTE for FY 2013, a decrease of 2.5 FTE from the FY 2012 requested level of 22.2.

Center for Faith-Based and Neighborhood Partnerships (CFBNP). CFBNP requests 8.4 FTE for FY 2013, which represents an increase of .2 FTE over the FY 2012 requested level of 8.2.

Office of Sustainable Housing and Communities (OSHC). SHC requests 18 FTE for FY 2013, which represents an increase of .9 FTE over the FY 2012 requested level of 17.1.

Office of Strategic Planning and Management (OSPM). SPM requests 29.6 FTE for FY 2013, which represents an increase of 1.7 FTE over the FY 2012 requested level of 27.9. This increase in staffing level will allow OSPM to better support program areas in accomplishing agency priority goals and achieving transformation priorities, including customized data analysis to interpret agency performance data and more "customer" support to resolve grants management challenges or project management support related to transformation projects.

Office of Disaster and Emergency Management (ODEM). HUD is requesting funding to establish this office as a separate office for FY 2013. It currently exists as an office inside of the Office of the Chief Human Capital Officer. ODEM requests 42.2 FTE for FY 2013. This includes a transfer from OCHCO of 20 FTE. ODEM is the single point of contact for: HUD disaster preparedness, response, and recovery management; continuity planning and management; testing, training, and exercises regarding disaster, continuity, and emergency management, including participation in national level planning and exercises and Cabinet level exercises; and protective services for the Secretary, Deputy Secretary, and the Department, and physical security. ODEM is developing standard policies, tools, and templates to improve the effectiveness and efficiency of HUD disaster and emergency operations.

Public and Indian Housing (PIH). PIH requests 1554.5 FTE for FY 2013, which represents an increase of .48.7 FTE over the FY 2012 requested level of 1505.8. This request provides for an additional FTE that will target the following priority areas: prevention of homelessness; Choice Neighborhoods; prevention of troubled PHAs; field office monitoring and oversight; Jobs-Plus; and miscellaneous activities.

Community Planning and Development (CPD). CPD requests 811.7 FTE for FY 2013, which represents an increase of 21.8 FTE over the FY 2012 requested level of 789.9. The additional 21.8 FTE will be utilized by CPD to maintain the necessary staffing levels needed to manage and monitor its core programs. CPD will use the additional staff to backfill key positions in the field offices. The staff will be responsible for monitoring over 18,000 grants and the increase in staffing will permit CPD to conduct more in-depth monitoring visits and/or spend more time with grantees as needed.

Housing (HSNG). HSNG requests 3190.9 FTE for FY 2013, which represents an increase of 16.8 FTE over the FY 2012 requested level of 3174.1. This increase will include 14.8 FTE for Multifamily and 2 FTE for the Risk Management Office.

Policy Development and Research (PDR). PDR requests 145.4 FTE for FY 2013, which represents a decrease of 5.8 FTE from the FY 2012 requested level of 151.2.

Fair Housing and Equal Opportunity (FHEO). FHEO requests 587.4 FTE for FY 2013, an increase of 6.7 FTE over the FY 2012 requested level of 587.4.

Office of Healthy Homes and Lead Hazard Control (LBPA). OHHHLC requests 52.2 FTE for FY 2013, a decrease of 5.8 FTE from the FY 2012 requested level of 58.

Mr. Latham #25

Funding for Employee Training and Development

Question: Please provide a table, broken out by program office, showing the funds for employee training and development for the last five years.

Answer: See attached table.

Training and Development Funds.›

Mr. Latham #26

Travel

Question: Please provide a table showing the destination, purpose, member of staff, duration, cost (including all related costs including per diem and contracts), and other relevant details for all travel for the last three years.

Answer: See attached reports for 2009 and 2010.

Travel report 2010 CERS.xlsx

Travel report 2009 CERS.xlsx

Mr. Latham # 27

Working Capital Fund

Question: The budget this year proposes $170 million for Working Capital Fund activities, a decrease of $29 million from last year. Why the decrease?

Answer: The fiscal year 2013 Working Capital Fund Budget requests $170 million in direct appropriations plus $71.5 million in transfers from the FHA Mutual Mortgage Insurance account for a total level of $241.5 million to fund HUD's information technology (IT) systems. This request reflects a reduction of $29 million from the fiscal year 2012 appropriation due to the ongoing progress of the HITS-HUDNET transition, savings and efficiencies from the OCIO contract review process, savings and efficiencies from the maturing and ongoing Transformation Initiative IT projects as well as the restricted resource environment we are operating in.

Mr. Latham #28

Working Capital Fund

Question: Last year HUD proposed moving all of the IT activities and funding into the Working Capital Fund and did not propose any funding out of the Transformation Initiative. Why?

Answer: In fiscal years 2010 and 2011, the Department initiated the Transformation Initiative and included IT funds totaling $122.5 million in fiscal year 2010 and $114.1 million in fiscal year 2011. With much of the fiscal years 2010 and 2011 TI/IT funding not yet obligated, HUD did not request additional development funding for fiscal year 2012. As planned, in fiscal year 2013, we again requested additional IT development funds to continue the priority TI/IT Initiatives.

The Working Capital Fund was and continues to be almost entirely focused on operations and maintenance – 99 percent of the WCF funding is allocated to continue operations and maintenance costs including 30-year old legacy systems.

Mr. Latham #29

Working Capital Fund

Question: If these IT investments are so critical to HUD's success, doesn't that call for a greater ability to plan? Doesn't HUD think that these decisions shouldn't be made spur of the moment?

Answer: As reported by GAO in their review, HUD is making progress with the implementation of its new project planning and management framework. HUD has spent much of fiscal years 2011 and 2012 executing improvements to project planning and management controls.

For many years prior to the Transformation Initiative Fund, HUD only had limited funds to develop new functionality – most of HUD's IT funding was allocated towards keeping its legacy IT systems operational. HUD's previous practices for IT project management did not include appropriate lifecycle planning, cost estimation, and management. HUD has addressed these deficiencies with its new IT management framework, although time has been required to instantiate new project planning and management skills.

Each of the Transformation Initiative IT projects has developed roadmaps to provide a clear vision for what the new IT system will do to improve HUD's mission; identify functional capabilities delivered in 6-9 month increments; provide a description of the approach that will be used to achieve each deliverable; and describe the overall program and project management structure in place to support the successful execution of the projects. These detailed plans are now being used to update HUD's Exhibit 300 investment documentation that is submitted to OMB as part of the annual Federal budget formulation and execution process. HUD believes the changes implemented during the past year have emphasized the necessity of planning and project management, and that its new project management framework will enable HUD to better incorporate its IT investments into the annual budget formulation process. The Department foresees continued progress in these areas over time.

Mr. Latham #30

Working Capital Fund

Question: Therefore, shouldn't HUD be planning for IT investments at least a year out, request them through the process, and then have certainty on what you are going to do?

Answer: HUD values the use of multi-year planning. In addition to incorporating the planning for investments in the annual budget formulation process, HUD has implemented a new annual 5-year IT planning effort for all IT spending, without regard to the source of funds. This provides a useful long-term view for the Department's budgetary needs. The Department looks forward to working with Congress as progress continues on our IT planning, while recognizing there will always be some degree of change as conditions warrant.

Mr. Latham #31

Working Capital Fund

Question: If the concern as it relates to IT investments, and even some of the transformation initiatives, is that if you continue with this scheme to skim funds from various offices and accounts, then all of the offices will take an interest and have a stake in the decisions HUD makes across the Department. To that end, then wouldn't it make sense that HUD should revamp its Working Capital Fund to be a TRUE working capital fund with reimbursable agreements paying for IT, rent, payroll, technical assistance, and other shared services?

Answer: HUD is aware of this possibility, and has had internal discussions about shifting the Working Capital Fund to a true revolving fund. While HUD has explored this possibility, this would require a very complex and substantial restructuring of HUD's IT budgeting, planning, project management processes, and other activities listed in your question. Such a change would have to be undertaken carefully and with much advance planning. While HUD remains open to the idea, and will continue to examine the options it has available, we do not believe HUD is in a position to so significantly revamp its IT funding for operations and maintenance in the next fiscal year.

Mr. Latham #32

Working Capital Fund

Question: What is standing in the way of HUD moving in this direction?

Answer: Moving to a different and more encompassing Working Capital Fund (WCF) has challenges that must be carefully assessed and that require a careful examination of data, strategic plans, capabilities , timing and strengths and weaknesses of the proposal. In the Information Technology arena, the Department has been diligent in moving forward toward a better understanding of all of the different types of IT needs we have and how the IT program is developing through future years. Congress has recognized this change in status and improvement in our IT strategic planning and has had several reports from the General Accountability Office that recognize significant progress to date. Of course there are continued challenges that we will continue to pursue this year and in future years as well.

In the IT arena the Department did not have a consolidated, clear analysis of our IT programs and needs and current and life cycle costs. Over the past year significant effort was required to analyze the WCF to better understand all of the items being funded, implement lifecycle cost estimating and management practices, and conduct assessments of current contracts to identify savings. HUD is also in the midst of executing a replacement for its current Infrastructure and Operations contract (HITS) which will provide HUD with better access to information needed to effectively run a WCF.

The possibility of a working capital funds that goes substantially beyond the IT program has many of the same challenges of knowing the detailed data and directions of current efforts and would require a strategic proposal that would have to be carefully examined for strengths and weaknesses, estimates of improvements that would be captured, sensitivity to the levels and sources of resources that are involved and have a strategic basis for how the program would be conducted in both the near and longer term. A strategy of this complexity requires a complete and careful review and is one which we would carefully discuss with Congress and as needed, other stakeholders.

Mr. Latham #33

Homeless Assistance Grants

Question: How is the Department ensuring that continuum-of-care funds are used effectively and in a way that incentivizes good performance?

Answer: HUD currently provides incentives for Continuums of Care (CoC) to make performance a priority through its annual CoC Notice of Funding Availability (NOFA) process. Each year, CoCs are required to submit an application for funding that collects CoC-level information on performance, data collection, and strategic planning efforts. CoCs use project level data reported by the grantees via the Annual Performance Report (APR), HMIS data, and data collected during the local Point-in-Time Count and Housing Inventory Count (HIC) to complete the application. CoCs that are able to demonstrate good performance in areas such as data collection efforts and meeting strategic plan goals score higher—and therefore are more competitive. CoCs are encouraged to monitor project performance closely and are encouraged to reallocate funds from underperforming projects. Further, renewal projects undergo a capacity and budget review by HUD annually during the competition review process.

HUD ensures that program funds are used effectively and in compliance with statutory and regulatory requirements through monitoring efforts done by the local HUD Field Offices. HUD also regularly tracks slow-spending to identify potential problems and determine appropriate courses of action.

Finally, the HEARTH Act, and its implementing regulations for the CoC program, ESG program, and RHS program, places a stronger emphasis on both performance and compliance. As all of these regulations will be in effect for FY 2012 funds, this will help HUD to ensure that funds are used effectively and further incentivize high performance.

Mr. Latham #34

Homeless Assistance Grants

Question: Is the Department encouraging continuums-of-care to reallocate funding at the local level, to weed-out ineffective providers and enhance service?

Answer: HUD encourages eligible Continuum of Cares (CoCs) to reallocate underperforming or ineffective Supportive Housing Program renewal projects in order to create new permanent supportive housing or Homeless Management Information Systems (HMIS) projects. In order to encourage CoCs to maximize this opportunity with as little risk as possible, funding for new projects created as part of the reallocation process is protected in the same manner as it is for renewal projects.

In 2012 under the new Continuum of Care program, all CoCs will be able to use reallocation as a tool to eliminate or reduce funding for grants that are not performing or are not in compliance with regulations. For the first time ever, CoCs will also be able to eliminate or reduce Shelter Plus Care grants as part of a comprehensive review of all grants within a CoC's portfolio.

In 2011, HUD worked with the U.S. Interagency Council on Homelessness on a webinar about how to manage the reallocation process locally and on the benefits of reallocation. HUD plans to issue additional technical assistance tools related to reallocation as part of the roll-out of the new HEARTH Act regulations.

Mr. Latham #35

Homeless Assistance Grants

Question: The HEARTH Act of 2009 made positive changes to homeless programs, including performance-based criteria and innovative methods like "rapid re-housing." However, the Department has not yet implemented regulations for the new grant programs under HEARTH. It's been 3 years, and the HEARTH Act itself called for final regulations to be implemented within 2 years. When will the Department release and finalize the regulations for the new programs?

Answer: The HEARTH Act required HUD to write six sets of regulations: the Definition of Homeless, the Consolidated Plan Conforming Amendments, the Emergency Solutions Grant (ESG) Program, Homeless Management Information Systems (HMIS) Requirements, the Continuum of Care (CoC) Program, and the Rural Housing Stability Assistance Program (RHSP). Below is a brief overview of the status of each rule:

1. The final rule on the *Definition of Homeless* went into effect on January 4, 2012. It applies to the Consolidated Plan regulation (24 CFR part 91), the Shelter Plus Care program (24 CFR part 582), and the Supportive Housing program (24 CFR part 583). This definition was incorporated into the Emergency Solutions Grants program (24 CFR part 576) and will be incorporated into the CoC program and the RHS program when the regulations are published for effect. A webinar, listserv message and some technical assistance materials have been posted on the Homelessness Resource Exchange (HRE). Additional materials are under development. HUD also published a Notice on the limitation on the use of SHP and S+C funds on Category 3 of the definition (also posted on the HRE).

2. On January 4, 2012, the interim rules on the *Emergency Solutions Grant* (ESG) program and corresponding amendments to the *Consolidated Plan* went into effect. The comment period for the ESG rule closed on February 3, 2012, and SNAPS is now working on a final rule based on the public comments received. The interim rule regulates the use of the second allocation of FY 2011 ESG funds and the FY 2012 ESG allocation, and will regulate any future fiscal year allocations until the final rule is published.

3. On December 9, 2011, the proposed rule for *HMIS Requirements* was published in the Federal Register. The comment period for this interim rule closed on February 7, 2012. This rule is not yet in effect. SNAPS is in the process of working on a final rule based on the public comments received. Homeless Management Information Systems (HMIS) currently in operation must continue to use the standards currently in place (the 2004 Technical Standards and the 2010 Data Standards) until the HMIS rule is published as final.

4. HUD is in the final stages of clearing through OMB both the *Continuum of Care (CoC)* and *Rural Housing Stability Program (RHSP)* rules. Congress has directed that these rules be published as interim so they can be implemented in FY2012; therefore, the FY

2012 CoC and RHS NOFAs will reflect the requirements of the McKinney-Vento Act, as amended by the HEARTH Act, and all grants awarded through the FY 2012 competitions will be required to comply with the interim rules.

Mr. Latham #36

FHA Mortgage Settlement

Question: The settlement between some of the Nation's largest banks and the Administration stated that close to $1 billion will go to the federal government to repay public funds lost as a result of servicer misconduct. Did the FHA pay claims on mortgages insured by the agency due to servicer misconduct?

Answer: Yes, FHA undoubtedly has paid claims on insured mortgages that could have been avoided had servicers properly engaged in loss mitigation activities required by FHA regulations and guidance.

Mr. Latham #37

FHA Mortgage Settlement

Question: What were the losses that FHA sustained from servicer misconduct?

Answer: Because each borrower's situation is unique it is impossible to state with specificity which individual loans that were improperly serviced or were not considered for loss mitigation could have avoided a claim if the servicers had complied with FHA regulations.

Mr. Latham #38

FHA Mortgage Settlement

Question: How was the $1 billion figure calculated, and when will FHA receive the funds?

Answer: The figure cited was negotiated, not calculated, and includes payments for both origination and servicing releases. Given the uncertainty described in the answer above regarding losses accrued due to servicing failures, calculation of losses to the dollar was not possible. The banks have paid the funds to the settlement escrow agent and the Department of Justice will remit those funds to FHA in the coming weeks.

Mr. Latham #39

FHA Mortgage Settlement

Question: Absent this $1 billion settlement, would FHA need to draw down on its unlimited line of credit from the U.S. Treasury to avoid a negative balance?

Answer: No, even absent the settlement funds, current projections indicate that the Mutual Mortgage Insurance (MMI) Fund would not require a mandatory appropriation to cover increases in the long-term liability estimates. Mortgage insurance premium increases announced following the release of the FY 2013 President's Budget, combined with higher loan volume, are projected to increase receipts available in the Capital Reserve to a level that will cover all required transfers into the MMI Financing Account.

Mr. Latham #40

Sustainable Communities

Question: Our colleagues on House Financial Services, led by Ranking Member Frank, have recommended that we not fund Sustainable and that we transfer all those funds to CDBG. Your budget funds Sustainable Communities in the account that funds CDBG – so every dollar for Sustainable Communities is a dollar less for CDBG. Why is funding this pilot program more important than increasing funds to communities which can then use sustainable principles in their development activities?

Answer: The Community Development Block Grant (CDBG) program and the Sustainable Communities Initiative (SCI) have vastly different purposes but have the ability to complement one another. CDBG is the Federal government's largest community development program, annually providing funds to thousands of jurisdictions on a formula basis, while SCI is a critical tool that can assist communities in re-booting their economies, preparing them to compete on a global scale. Our metropolitan areas and rural regions are experiencing unprecedented demands on infrastructure, housing, and economic transformation. For many regions, population change – whether growth or decline -- is challenging their ability to develop strategic blueprints to guide federal investments to ensure that they are meeting the priority needs of a community, leveraging private investment, and supporting long-term economic prosperity. Communities large and small, urban and rural are asking for a new federal partnership that provides the resources and tools to forge stronger collaborations across regions, building the partnerships necessary to remake their economies and ensure American families retain a high standard of living. This is evident by the high demand for SCI grants: in 2011, only the program's second year, $770 million was requested by 451 applications for only $100 million in grant funds.

CDBG is a critical tool for building infrastructure, addressing affordable housing needs, creating jobs and economic development activities and funding levels should be sustained to help our communities address these challenges. However, while CDBG can address some planning needs of its grantees, SCI can transcend jurisdictional boundaries and fund a broader approach that can establish the basis for long term economic growth. There are several ways that Sustainable Communities Grants are unique among Federal grants:

- **Geography** – The Sustainable Communities Initiative (SCI) provides a strong incentive for communities to work together, across jurisdictional and state lines. In fact, partnership across geographies and issue areas is a requirement of both Sustainable Communities grant programs – with their explicit focus on integrating housing with other community investment priorities such as transportation, economic development, or water infrastructure. Currently, HUD grants have funded bi-state efforts underway in New York and Connecticut, Iowa and Nebraska, North and South Carolina, Mississippi and Arkansas, Tennessee and Kentucky, and in Idaho and Colorado. The SCI is also supporting new coordination between sovereign Native American tribes and their neighboring counties and towns. Regional and Community Challenge grants have been awarded to tribal organizations, including: the Hopi Tribe, AZ; Pueblo de cochiti Housing Authority, NM; Northwoods NiiJii Enterprise Community, Inc., WI; Spokane

Tribe of Indians, WA and to Opportunity Links in Havre, MT in partnership with that region's tribal governments.

- **Flexibility** – SCI grants support entire communities at all income bands, with special attention to low-moderate income persons. Meanwhile, the CDBG statute mandates that at least 70 percent of funds be expended for activities that provide benefit to low- and moderate-income persons, limiting a community's ability to use these funds for activities that can benefit all families in a region, regardless of income limits. Also, communities not qualifying for CDBG entitlement community status can use these grants to plan for future economic development, housing, and transportation needs in a coordinated way. For rural communities and small towns, SCI planning grants are frequently the only source of Federal support to allow these areas to develop their own plan for growth and development rather than relying only on a plan developed by the State. As a consequence, demand from these communities has been incredibly strong and roughly 40 percent of current grantees are from regions under 200,000 in population or communities under 50,000 in population.

- **Partnership** – SC grants support public and private partnerships between municipalities, regional agencies, non-profits, and other public agencies. In many cases, the Chamber of Commerce is a core partner and grants could be made directly to these important leadership entities. SCI requires at least a 20 percent non-federal match, with points awarded in the review process for applications that included additional leveraged resources. This total Federal investment of almost $244 million dollars has in turn secured almost $253 million in private investment and commitments from local partners. For example, the integrated housing, transportation, and economic development strategy being developed with a SC grant in Memphis, TN has been a factor driving corporations like FedEx, Electrolux, Mitsubishi, and Nucor Steel to expand operations in the city and create additional jobs. These business partners are actively involved in the Memphis economic development plan funded in part through a FY 2010 Community Challenge grant, both as financial contributors and as participants at the planning table.

- **Setting the Table for Effective Federal Spending** – SCI places a significant emphasis on aligning and leveraging funds to implement regional and local plans. We are so committed to this that we have created Preferred Sustainability Status (PSS), which allow HUD to reward communities that do the hard work to plan for better long-term outcomes. PSS has been awarded to SC grantees and applicants with qualifying scores that HUD was unable to award given available funding levels. Over 14 HUD discretionary grant competitions recognize PSS with two bonus points. The Quincy Corridor Transformation Choice Neighborhood Grant in Boston is an example of an implementation project identified as part of the Boston Regional SC grant which received PSS status. Increasingly, SCI grantees are using developing plans that identify and prioritize catalytic infrastructure and development projects that may be funded through other Federal or private investments. One example of this alignment is in Northern Maine where a HUD Regional Planning grant comes at the same time as the two counties of Washington and Aroostook realign into a single Economic Development District. These new partners are using the SC plan to meet the Federal Comprehensive Economic Development Strategy (CEDS) requirement thereby streamlining the process

and creating the first joint economic strategy for their region. Another rural example is Ranson, WV, a recipient of 2010 Community Challenge and TIGER II planning grants. HUD's grant is being used locally to update the zoning code to help bring new residents and businesses downtown. Complete Streets improvements funded by DOT are restoring Ranson's commercial corridor. EPA funds are helping the city clean-up and restore contaminated sites. These federal investments are in turn leveraging state and private resources to achieve the community's vision for job creation and improved quality of life.

- **Incenting Rapid Reform** – Like a "race to the top" type of effort, SCI uses a small amount of funds to catalyze significant changes in vision, in policy and in specific on-the-ground investments. One example of this is Greater Kansas City – a bi-state grantee crossing Kansas and Missouri – where the region is moving quickly from planning to implementation. To catalyze their progress on regional planning funded in FY 2010, HUD gave Kansas City a second, smaller grant. Their 2011 Community Challenge award will update zoning and building codes in Kansas City's first suburbs, aligning their development policies with their vision of a sustainable region. Instead of functioning as a one-size-fits-all model, Kansas City's codes will work as a menu, offering localities information on key issues like housing affordability and natural resource protection, weighing their pros and cons, and providing code citations to best practices from across the county. Suburbs in the region will then be able to decide what is best for their unique needs.

Mr. Latham #41

Sustainable Communities

Question: If the goal is to get communities to adopt certain best practices and to work well across the silos of the federal government – why can't HUD simply incorporate sustainable principles throughout all HUD programs?

Answer: HUD is working to infuse the sustainability principles within our broader set of programs. The Department's Strategic Plan includes a specific Agency Goal to Build Inclusive and Sustainable Communities Free from Discrimination.

The Office of Sustainable Housing and Communities has been working with other HUD program offices such as Community Planning and Development, Housing, Multifamily Housing, Fair Housing and Equal Opportunity, and Policy Development and Research to identify ways that HUD's programs can better support sustainability principles and support best practices. This has included identifying existing Federal barriers and strategies to remedy these, as described in the August 2011 report to Congress on Barriers to Coordinating Housing and Transportation Programs. We have also recently launched the new Consolidated Planning Geographic Information System (GIS) Mapping Tool that provides data and GIS capabilities to communities, allowing them to look at affordable housing and transit networks within their community. HUD has also established a Preferred Sustainability Status for qualifying regions and communities that recognizes communities that have embraced sustainability goals within other discretionary HUD programs by providing bonus points for competitive programs.

While we are proud of our accomplishments to date in incorporating sustainability throughout HUD, we continue to hear from communities that they do not have the resources or tools to create the type of overarching plan they need. These communities welcome Sustainable Communities grants, saying that having programs specifically targeted to supporting cross-jurisdiction and integrated planning across disciplines is a welcome new HUD approach. There remains broad support and significant interest in our Sustainable Communities Planning grants, with only 11 percent of the approximately 1,500 applications being funded in FYs 2010 and 2011. The type of comprehensive planning needed is complex and cannot be achieved through the existing suite of Federal programs. The majority of HUD programs have a specific housing focus or narrow set of eligible recipients, so even as we are working to infuse sustainability within these core programs, they are not sufficient to meet the need. The Sustainable Communities grants complement the increased focus on sustainability evident throughout HUD.

Mr. Latham #42

Transformation Initiative

Question: In the past couple of years, HUD has sought authority to skim one-half to one percent off various appropriated accounts and deposit those funds into the Transformation Initiative with the goal of "transforming" HUD. This is the Administration's fourth budget and while we could understand needing some flexibility in the early years, shouldn't you have made some progress getting to a better certainty in planning so you can specifically request funds for IT, research and new initiatives?

Answer: HUD is in the midst of a multi-year effort to fundamentally transform the agency by changing the way HUD does business and increasing the efficiency and effectiveness of the Department's programs. The Transformation Initiative (TI) fund has been and remains a key effort to provide necessary funding in four areas: Research & Evaluations, Program Demonstrations, Technical Assistance (TA), and Information Technology (IT); and it continues to support the reinvention of the Department in coordination with our Strategic Plan. The TI account is making a real difference by providing stability to multi-year transformational efforts as well as funding new cross-cutting innovations in Research, Demos, TA, and IT that will continue to improve Departmental outcomes. In addition, this resource reflects the key recommendation of industry experts such as the National Research Council (NRC) - which recently reviewed HUD's research processes at the request of Congress. As referenced in our FY 2013 justification, the NRC determined:

> "...PDR "should regularly conduct rigorous evaluations of all of HUD's major programs". NRC also recommended that program set asides such as those requested through the TI Fund would be the best approach for funding this evaluation program...The NRC determined that PDR research frequently reveals opportunities for savings to taxpayers...The largest savings came from a Quality Control study undertaken in the early 1990s to investigate substantial inaccuracies in setting rents for tenants in HUD's assisted housing programs...The process implemented based on this research saves an estimated $1.4 billion each year, or almost 3 percent of HUD's budget."[1]

Similarly, the additional TI categories such as Program Demonstrations, TA, and IT seek to modernize the Department, improve outcomes, and produce savings across the Department.

HUD has greatly improved its planning processes and continues to request the transfer authority to help respond and adapt to its rapidly changing operating environment. Recent crises with natural disasters, the housing market, and deep fiscal distress among state and local partners have highlighted the need for HUD to be more nimble, creative and collaborative. Reliance on legacy programs and rigidly conventional approaches will not be adequate for emerging issues and needs. Setting aside a portion of HUD's program accounts through TI to enhance programmatic outcomes reflects recognition that planning for continuous improvement and innovation is integral for the success of our programs.

---

[1] National Research Council. "Rebuilding the Research Capacity at HUD," 2008. Committee to Evaluate the Research Plan of the Department of Housing and Urban Development. Washington, DC: National Academies Press. http://www.nap.edu/catalog.php?record_id=12468

The experiences with TI over the years have allowed HUD to adapt and improve implementation each year. In FY 2010, the initial requirement of a separate TI Plan describing project by project detail led to a long list that tended to be defined to a single office rather than cross-cutting. In FY 2011, HUD limited the number of projects and prioritized those that were more cross-cutting. In FY 2012, Congress provided a specific list of 2011 projects recommended in the Conference Report and the Department followed these recommendations. HUD attempted to more fully describe the Department's needs in advance through the FY 2013 budget by providing the detail that was available at the time of drafting and categorizing needs more broadly where detail was not yet clear.

The need for transformation was tremendous at the beginning of the TI fund, and the Department has begun shifting from this backlog of needs to improved planning. PD&R is in the midst of developing a 5-year research roadmap with the input of a wide range of stakeholders that will guide future year investments for research and demonstration projects. Similarly, OCIO has developed a 5-year IT plan for its investments, which will guide the types of improvements requested under TI-IT. For technical assistance, PD&R has been working with program offices to better categorize and describe needs, universally focus these programs on quantifying progress and outcomes, and align programs to work more closely across offices. In particular, PD&R, PIH, Housing, CPD, and FHEO are planning more aligned TA processes for affordable housing preservation and guidance for complying with fair housing laws and regulation – topics that affect more than one group of grantees and require a greater degree of coordination.

HUD views the FY 2013 budget submission as the beginning of a conversation with Congress and welcomes the opportunity to discuss more in a follow-up briefing.

Mr. Latham #43

Transformation Initiative

Question: Quoting from your budget: "Given the time between the formulation of HUD's budget and its passage, new information needs will be identified as current projects progress and policy issues develop with input from across the Department, Congress and outside experts and stakeholders."

Is HUD saying that a department that traditionally takes more than 365 days to get a NOFA out the door is so nimble and under such pressure from the outside that you need blanket authority to move around more than $200 million?

Answer: HUD has made significant progress in its planning and assessment of needs in the areas that are the focus of the Transformation Initiative. As one example, the Department reduced its average NOFA publishing time from appropriations to 60 days in Fiscal Year 2011. A second example of this is the research roadmap effort that is currently underway, which will provide the Department with a deeper understanding of the research and demonstration areas in which it has a comparative advantage. A third example can be found in information technology, where state-of-the-art project management and monitoring has greatly improved our ability to adjust projects as needed. Indeed, the Department is more nimble than it was just a few short years ago, and it will continue improving in this area.

One area where we anticipate significant improvement is technical assistance (TA). As you may know, TA is currently delivered in a fractured fashion, with resources allocated on a program-by-program basis. This hampers our ability to deliver effective place-based support, particularly for locations served by multiple programs. Recognizing this challenge, we are currently working to develop better models for providing TA of this kind, and are pursuing pilots to establish successful frameworks. For example, OneCPD is designed to improve the delivery and effectiveness of place-based TA, and experiences through this program will further enhance our ability to provide high quality, contextually appropriate TA.

The flexibility afforded through the Transformation Initiative significantly improves our ability to deliver this kind of support.

Mr. Latham #44

Transformation Initiative

Question: Can HUD provide a list of other agencies with such authority?

Answer: Yes, several large agencies have used such authority in past years. The following details the relevant information:

As HUD described in its 2010 Congressional Justification for Transformation Initiative, the Department of Transportation's (DOT's) Strategic Highway Research Program is one example:

> "In 2008, amendments (122 Stat. 1604) to the SAFETEA-LU transportation act, Congress authorized the Department of Transportation to fund the Strategic Highway Research Program (23 U.S.C. 510) by deducting up to 0.205 percent from major program accounts. The programs that are to contribute funds include the surface transportation program, the congestion mitigation and air quality improvement program, the National Highway System, the Interstate maintenance program, the bridge program, and the highway safety improvement program. The transformative research funds supplement DOT's annual direct appropriations for research."

In recent years, the Department of Health and Human Services (HHS) Secretarial Initiatives and Innovations fund has had a similar purpose:

> "The funding allows the Secretary the necessary flexibility to identify, refine, and implement programmatic and organizational goals in response to evolving business needs and legislative requirements. Additionally, the request will allow the Secretary to promote and foster innovative, high-impact, collaborative, and sustainable initiatives that target HHS priorities and address intradepartmental gaps"[2]

Furthermore, the National Institutes of Health (NIH) and other Public Health Service (PHS) agencies also include a similar mechanism for research:

> "NIH and three of the other Public Health Service agencies within HHS are subject to a budget tap called the PHS Program Evaluation Set-Aside. Section 241 of the PHS Act (42 U.S.C. § 238j) authorizes the Secretary to use a portion of eligible appropriations to assess the effectiveness of Federal health programs and to identify ways to improve them. The set-aside has the effect of redistributing appropriated funds for specific purposes among PHS and other HHS agencies. Section 205 of the FY 2010 Labor/HHS appropriations act capped the set-aside at 2.5 percent, instead of the 2.4 percent maximum that had been in place for several years. The FY 2012 budget proposes to increase the set-aside to 3.2 percent."[3]

---

[2] Department of Health and Human Services Fiscal Year 2013 Justification of Estimates for Appropriations Committees, http://www.hhs.gov/budget/hhs-general-budget-justification-fy2013.pdf, p.21.
[3] CRS Report for Congress: Federal Research and Development Funding: FY2012, http://assets.opencrs.com/rpts/R41706_20110329.pdf, p. 20.

Mr. Latham #45

Transformation Initiative

Question: The Fiscal Year 2012 bill directly appropriated $50 million for TI. Please provide concrete examples of how a direct appropriation for planned projects has hindered progress at the Department, or what "emerging" needs are going unmet?

Answer: The fiscal year 2012 Operating Plan has not yet been approved by Congress, so HUD has not been able to implement many of its Transformation Initiative (TI) activities. However, research and technical assistance in particular need to be responsive to what Congress includes in the program appropriations of a given budget year, which HUD cannot necessarily anticipate when it prepares the TI budget in advance. As an example, the prescribed nature of projects for TI has made it more difficult for HUD to plan for an evaluation of the Section 811 Project Rental Assistance Demonstration authorized by Congress through the Melville Act. This significant change to the Section 811 program did not include evaluation funds or appear in Congress's recommended TI projects for 2012, since this list was based on HUD's 2011 TI requests. PD&R is working with the Center for Medicare and Medicaid Services (CMS) to structure a timely evaluation, relying largely on CMS resources. The lack of TI funding flexibility makes it difficult to address some of the early implementation questions focused more specifically on housing.

An evaluation of the Rental Assistance Demonstration (RAD) is another example. While Congress approved the demonstration and required an evaluation, it did not provide funding for the evaluation. PD&R is currently working with Research & Technology (R&T) funds to create a research design for RAD, but is dependent on the fiscal year 2013 request to fund the evaluation itself. If HUD had greater flexibility to use TI funds on any research or demonstration activity, a more robust initial effort could have been started this year.

Likewise, technical assistance (TA) will be required to assist housing authorities and owners who are pursuing new financing mechanisms as part of RAD, but none of HUD's approved TI projects specifically address the full range of grantees and needs. HUD is instead drawing from individual projects and attempting to coordinate activities, but this would be much more efficiently done through the Department directing TI funds specifically to this effort.

The ability to holistically address the TA needs of PHAs is also made more difficult by the project-level specificity of TI. Independent Assessments for Troubled PHAs TA has worked with severely troubled PHAs, and was specifically approved in the 2012 Conference Report. However, there are a range of TA needs – ongoing training in managing programs, finances, and governance as staff turns over, new policies and practices (i.e. energy efficiency), and new programs, like Choice Neighborhoods and RAD – that PHAs beyond those in "troubled" status encounter. Having more general and flexible TA resources at the ready to deploy for these needs, and to work with PHAs to address the full range of their needs through a single flexible TA pool for PHAs (and including Multifamily Housing grantees when programs like RAD warrant) is much more effective and efficient.

Mr. Latham #46

Transformation Initiative

Question: Why is it not possible to request IT funding under the Working Capital Fund, research initiatives under PD&R, and technical assistance under another account?

Answer: The Department strongly supports the continuation of the Transformation Initiative as a crucial tool to help reinvent HUD through modernization efforts that will significantly improve the results accomplished by the Department. The Transformation Initiative provides a holistic model and ties to our Strategic Plan in a broader effort to re-invent the Department and achieve better performance outcomes for communities and families across the nation. The TI account is the primary vehicle for the Department to go beyond program specific efforts to pursue cross-programmatic outcomes that are place-based in focus. Furthermore, using a percentage of program accounts to fund the TI has created a deeper relationship between these critical functions (technical assistance, research, demonstrations, and information technology) and the programs they serve.

When each office has a separate funding source, the need to coordinate and collaborate tends to decrease in favor of expediency, resulting in a more fractured and siloed response to grantees. This is particularly true for technical assistance. As an example, PD&R has convened a series of meetings over the past year to discuss greater coordination and alignment of TA in the Department. The principals of each of the program offices attended in person in most cases, because they feel a vested interest in how the Department's pooled resources are used.

In terms of the TI Research & Evaluation category, these funds work hand-in-hand with research and data collection funded through PDR's Research and Technology (R&T) account. TI projects rely on the data supported by the R&T account, but also HUD relies on the dissemination funded through R&T to share the results of the TI studies with Congress and the public. This balanced approach to creating and marshaling policy-relevant information is consistent with the recommendations of the National Research Council, in "Rebuilding the Research Capacity at HUD"[4] and the American Evaluation Association's recommendation that for evaluation to fulfill its role as a "staple of good government," it should be funded separately from large cross-cutting surveys and performance monitoring data.[5]

The Information Technology area is also a good example where we have broken new ground outside of the Working Capital Fund model to pursue seven priority projects that will modernize our IT efforts, produce savings, and greatly improve performance. We are following a model, which was reviewed positively by the General Accountability Office. This development approach recognizes the limits of our current capacity and provides the structure and requirements for accountability that will produce real results. Congress has been a partner in all of these efforts and has recognized the importance of key development projects, including FHA modernization and NGMS systems. The TI structure provides a strategic framework that is

[4] The report was requested by Congress. National Research Council. —Rebuilding the Research Capacity at HUD, 2008. http://www.nap.edu/catalog.php?record_id=12468

[5] American Evaluation Association. —Evaluation Roadmap for More Effective Government, 2009. http://www.eval.org/EPTF/aea10.roadmap.101910.pdf

distinct from the operations and maintenance focus of the Working Capital Fund. A key underlying precept is that we are building an enterprise architecture that isn't bound by individual program silos and that eliminates redundancies and inefficiencies. The strategic approach of IT under the Transformation Initiative will allow us to move away from legacy systems, some of which are over 30 years old.

Overall, the Transformation Initiative has created a focus that transcends previous program office and resource limitations. Continuation of this effort will reflect large activity accomplishments within an innovative approach that is changing the delivery and practices of the Department. The full litany of these efforts cannot be accomplished through the existing individual account structure.

Mr. Latham #47

Native American Housing

Question: What is the Department doing to improve technical assistance to tribes?

Answer: The FY 2012 Appropriations Act authorized $2 million to be contracted for "national or regional organizations representing Native American housing interests for providing training and technical assistance to Indian Housing Authorities (IHAs) and Tribally Designated Housing Entities (TDHEs)." The associated Joint Conference Report states that these funds are to be awarded through a competitive process.

HUD will compete these funds to national and regional organizations under a Notice of Funding Availability (NOFA). This NOFA is presently being drafted and will be published at the earliest possible time. This new process will enable HUD to respond more quickly to specific technical assistance needs of a tribe rather than having a tribe waiting for HUD-sponsored training. Until such time as the NOFA being published and technical assistance funds awarded, HUD has procured a dedicated tribal technical assistance package that will bring immediate support to Tribes and TDHE's in the areas of financial management, capacity building and construction/procurement.

Significant resources are set aside each year to invest in training and to provide technical assistance. In FY 2011, $4,242,000 in Indian Housing Block Grant (IHBG) funds was allocated for training and technical assistance. These funds were used to support tribal consultation efforts; calculate and administer the IHBG formula; maintain the Performance Tracking Database, which contains key data on tribal housing programs as reported by IHBG grantees; and conduct national trainings in key areas of program administration.

NAHASDA-related training and technical assistance is also provided by HUD Office of Native American Programs (ONAP) staff located in one of six ONAP regions. Area ONAP staff train and offer technical assistance to tribal and TDHE staff as needed. ONAP staff routinely responds to requests for assistance or information, preparing explanatory and training materials, and conducting or participating in local workshops and training sessions.

Mr. Latham #48

Native American Housing

Question: Given the unique needs of tribes, particularly difficulties in navigating the federal trust land system, does it really make sense to fold tribal technical assistance in with the Transformation Initiative?

Answer: As currently structured, the programmatic provision of different pots of technical assistance hampers the Department's ability to deliver cross-cutting and innovative solutions to the problems faced by low-income residents as well as our Native American citizens. It is understandable that, having received separate funding for technical assistance in the past, tribes may be concerned that their needs might be overlooked. Care will be taken in the allocation of technical assistance to ensure that demonstrated needs are met. The advantage of having a larger pot to draw from, and the enhanced economies of scale in providing cross-cutting assistance, is that they offer improvements that will more than offset any risk or fear of losing funds. It is the quality, method of delivery, and effectiveness of technical assistance on a place-based model that ultimately counts. A larger, single source of technical assistance funding provides the Department the ability to achieve these economies, offering more contextually appropriate technical assistance at lower cost to benefit more clients than the currently fractured process.

Mr. Latham #49

Native American Housing

Question: The Navajo tribe plans to accelerate its spend-out to nearly $110 million over each of the next 3 years, but they receive about $90 million each year – so the tribe plans to reduce its $450 million backlog by only $60 million over 3 years. Is HUD committed to continue working with tribes to improve spend-out?

Answer: HUD is committed to continue working with tribes to improve spend-down of Indian Housing Block Grant funds. The Office of Native American Programs (ONAP) monitors the level of its recipients' unexpended grant balances, and provides technical assistance to recipients that do not spend their funds timely. ONAP has formulated a special tribal technical assistance team for the Navajo Housing Authority (NHA). This team represents a coordinated effort between ONAP's Northern Plains Office in Denver and its Southwest Office in Phoenix, as well as other HUD offices, including, Fair Housing and Labor Relations Offices. ONAP staff holds bi-weekly meetings with NHA to discuss their progress on expenditures and to offer technical assistance. ONAP and NHA staff also meets monthly through site visits.

Under this partnership, HUD has provided technical assistance to NHA on developing its FY 2012 Indian Housing Plan and has assisted NHA in developing a detailed expenditure plan for FY 2012. Under its expenditure plan, NHA will advertise to bid 13 contracts between April 2012 and August 2012 for construction services totaling approximately $160 million. Additionally, HUD has provided training to NHA staff and board members on the Native American Housing Assistance and Self-Determination Act (NAHASDA) programs, as well as, provide technical assistance in the areas related to financial procedures and grants management.

Mr. Latham #50

SHOP Program

Question: The FY13 budget proposes eliminating the SHOP program, which helps organizations like Habitat for Humanity continue the good work they do – helping low-income families afford new homes through a combination of sweat equity, private donations, and public funding. Projects funded by SHOP leverage approximately five non-federal dollars for every one federal dollar. Why is HUD proposing to eliminate SHOP?

Answer: SHOP is a small boutique program that is duplicative of other existing HUD programs. While SHOP serves a valuable purpose, it is difficult to justify separate funding of a stand alone sweat equity program when tough budget times have led to significant reductions in HOME Program appropriations. In a time of diminishing resources, HUD believes that directing resources to its flagship production program – which funds nearly 650 State and local governments including rural consortia is the appropriate course of action.

Self-help homeownership activities (e.g., sweat equity programs) are already eligible under and frequently funded by the HOME Program, the Community Development Block Grant (CDBG) Program, and the Neighborhood Stabilization Program (NSP). These programs have well-established, local delivery systems for administering and overseeing housing activities. Further, grantees are required to conduct a public process to identify the relative priority of their need for housing of different types (e.g., homeownership vs. rental, housing for persons with special needs, etc.) and determine how they will use HOME, CDBG and NSP funds to meet those needs. By contrast, most SHOP projects are selected through competitions administered by national SHOP grantees. While most jurisdictions welcome SHOP projects in their communities once funds are awarded to a local SHOP affiliate, those projects are not part of the consolidated plan process described above and do not necessarily address the jurisdiction's highest priority needs. In some cases, the location of SHOP projects may not be consistent with local neighborhood development plans and strategies.

HUD believes that many local affiliates of national SHOP grantees will be successful in applying for HOME and CDBG self-help housing funds from their local communities – including State grantees and HOME consortia located outside of metropolitan areas. Many local self-help groups are already successful in leveraging HOME and CDBG funds for the construction and rehabilitation of their SHOP units – costs that SHOP grants cannot finance.

Mr. Latham #51

SHOP Program

Question: Most SHOP sub-grantees are in rural areas and have to compete for state-wide HOME funds, which are in high demand and which often are set-aside for large tax credit deals. With the recent cuts to the HOME program, how likely is it that states could provide much support to self-help programs, especially in rural areas?

Answer: HUD estimates that the FY 2012 SHOP appropriation of $13.5 million will produce approximately 720 homeownership units nationally, a limited amount in contrast to other sweat equity and rural housing resources. Even if SHOP grantees forego the use of SHOP funds for administrative costs and direct all SHOP grant funds to rural areas, the $13.5 million appropriation would represent slightly more than one-tenth of 1 percent of the $1 billion of HOME funds appropriated for FY 2012 and less than 3.4 percent of the total allocation of HOME funds to States. Approximately 30 percent of each annual HOME appropriation is used to develop housing in rural areas, both by States and by rural HOME consortium.

It is possible some current local SHOP affiliates may be unable to obtain funding through a State HOME participating jurisdiction that targets larger projects. However, most affiliates could increase their chances of obtaining HOME funding by pursuing designation as a community housing development organization (CHDO). By statute, each HOME participating jurisdiction must use 15 percent of each HOME allocation for housing owned, developed, or sponsored by CHDOs. States, particularly those that are largely rural, have difficulty identifying capable CHDOs. Consequently, it is typically much easier to obtain CHDO funding from States and rural HOME consortium than it is obtain other HOME funds.

Although self-help housing programs are also funded by other HUD programs (e.g., CDBG and Neighborhood Stabilization Program), the Department views HOME as a particularly effective vehicle for funding local sweat equity programs. By statute, SHOP subsidy is limited to an average of $15,000 per unit and may only be used for acquisition, infrastructure, and administrative costs of the grantee. By comparison, the HOME Program has subsidy limits about eight times as high as SHOP and can fund all activities related to self-help housing (acquisition, infrastructure, architecture and engineering, permitting, legal and underwriting fees, fees for other sources of financing, project-related staff and overhead costs of the local self-help group, construction materials, construction costs, housing counseling, and downpayment assistance or mortgage financing for homebuyers). HOME is a more flexible and generous funding source for these important local programs.

Mr. Latham #52

GAO Duplication Report

Question: GAO's 2011 follow-up report on duplicative programs found that HUD has made minimal progress in assessing the extent to which its economic development programs overlap those at SBA, USDA, and Commerce. Of these four agencies, HUD is the only one that hasn't taken steps to define common economic development outcomes with other agencies. In particular, GAO found the Department doesn't know what portion of its economic development programs is duplicated by other agencies' programs. What are you doing to better understand the extent and type of duplication?

Answer: Notwithstanding the GAO report, HUD's Office of Community Planning and Development (CPD) has a thorough understanding of how its programs that fund economic development activities interact with and leverage programs at other Federal agencies. Further, the Community Development Block Grant (CDBG) and the Section 108 Loan Guarantee programs have unique characteristics that differentiate them from other Federal economic development programs. CDBG funds are made available to states and local governments via a statutory formula for a wide range of activities to support low- and moderate-income people, which include economic development. The Section 108 Loan Guarantee program is part of the CDBG program and enables grantees to leverage current and future CDBG funds to carry out economic and physical development activities that require resources beyond annual CDBG allocations or that create a revenue stream to repay the loan. Other Federal programs are strictly focused on economic development and are most often allocated through competition.

Over the past several years, CPD has engaged in various meetings with representatives of other agencies (Commerce, SBA, Agriculture, and Treasury) to better coordinate economic development programs in an effort to achieve better outcomes. HUD expects to continue this effort in the future to ensure that these scarce funds provide maximum return. With regard to program outcomes, HUD collects an extensive array of information on the use of CDBG funds by grantees, including use for economic development activities. CDBG grantees annually use several hundred million dollars of CDBG and Section 108 funding for economic development purposes with almost all these funds providing benefit to low- and moderate-income persons. HUD has worked extensively with GAO over the past several months regarding an update to this report and is hopeful that it will provide a better picture of how these programs interact and support one another.

Mr. Latham #53

GAO Duplication Report

Question: What is HUD doing to ensure interagency cooperation, so that its programs complement – not duplicate – other federal programs?

Answer: Community Development Block Grant (CDBG) requirements do not allow grantees to duplicate Federal funding within a project or activity. Under the CDBG statute, grantees may, however, use CDBG to provide the non-Federal match for Federal programs. When grantees choose to use CDBG funds in this manner, the funds naturally support the Federal objectives of both programs involved. One example of such cooperation is the common use by grantees of Section 108 loan guarantees in conjunction with the Treasury Department's New Markets Tax Credit program.

Another significant way CDBG grantees complement other economic development programs is by funding related but necessary projects, such as water and sewer improvements adjacent to a manufacturing plant. In this manner, CDBG funding routinely compliments rather than duplicates Economic Development Administration activities as well as investments made through various rural development programs at the Department of Agriculture.

Mr. Latham #54

VASH Report

Question: Based on the recent VASH report submitted to the committee, it appears that cumulative leasing in the life of the program (34,620) is about 27% higher than the number currently leased (27,285). This seems to be a large turnover rate for a vulnerable population over a three year period on the recent VASH report submitted to the committee, it appears that cumulative leasing in the life of the program (34,620) is about 27% higher than the number currently leased (27,285). This seems to be a large turnover rate for a vulnerable population over a three year period. Can HUD provide information on why these veterans left the program? Specifically, is there data on how many veterans moved on to self-sufficiency and how many slipped back through the cracks?

Answer: When the HUD-VASH numbers are separated out by year, the average annual attrition rate for the program runs at about 15.5 percent, which is 4.5 percentage points higher than the regular voucher program's attrition rate of approximately 11 percent.

Approximately 20 percent of the Veterans that have left the HUD-VASH program have transferred to the regular voucher program, indicating that these Veterans no longer depend on case managers for maintaining housing stability. In the Department of Veterans Affairs (VA's) reporting system, the Homeless Operations Management System (HOMES), Veterans that have made this transfer to the regular voucher program are recorded as having left the HUD-VASH program. Therefore, this 20 percent accounts for a portion of the difference between the attrition rates of the regular voucher program and the HUD-VASH program.

Preliminary data from the VA indicates that some of the Veterans that were assisted with HUD-VASH early on have not needed the level of support offered by HUD-VASH, and have left the program as a result. This suggests a need for improved targeting of HUD-VASH to the chronically homeless, which is an increasing focus of the VA, very much supported by the Department. With this shift in targeting, however, it is unclear to what extent attrition rates will significantly decrease. Chronically homeless Veterans face the highest barriers to achieving housing stability and self-sufficiency due to severe, co-occurring mental and physical health conditions. Therefore, as the number of chronically homeless Veterans served through HUD-VASH rises, ensuring that the Veterans remain stably housed will be increasingly challenging for VA case managers and PHAs.

HUD systems do not currently have the ability to collect data on the reasons families exit the program. Anecdotally, however, HUD knows of Veterans that have stabilized and left the program successfully, often without needing additional support. Veterans have also left the program for negative reasons, such as failing to comply with program requirements or being evicted for lease violations. Substance abuse seems to be a contributing factor in such cases.

The VA does collect data on reasons for Veterans leaving the program, and VA and HUD currently are using this data for a study that examines the characteristics of such Veterans. This important study, which will be completed by the end of FY 2014, will enable partnering agencies to gain a better understanding of the factors that contribute to both successful and unsuccessful participation in the HUD-VASH program. Outcomes of the study will inform future HUD-VASH policy decisions, as well as help partnering agencies ensure that Veterans remain stably housed and exit successfully from the program.

Mr. Latham #55

Real Estate Assessment Center

Question: As you know, we had expressed concerns about the inspection protocols being used by the Real Estate Assessment Center because they were based on multifamily inspections and in some cases were duplicative of or even contrary to the standards required of healthcare facilities, even by other parts of the federal government. What is the status with the proposed regulations for the Section 232 long-term care facility mortgage insurance program, including new protocols for inspections?

Answer: On May 3, 2012, HUD published a proposed rule (FR-5465-P-01) on narrowing the scope of Section 232 facilities that are routinely inspected by the Real Estate Assessment Center (REAC). In particular, facilities such as assisted living facilities and board and care facilities would be subject to routine REAC inspections unless the state or local government had a reliable and adequate inspection system in place. The remainder of the Section 232 properties, properties that are routinely surveyed pursuant to regulations of the Centers for Medicare and Medicaid Services, would be inspected only when and if HUD determined, on a case-by-case basis and on the basis of information received, that inspection of such facility is needed to assure protection of residents or the adequate preservation of the mortgaged property. This change would help assure that facilities surveyed frequently by state regulatory agencies for physical condition matters related to resident care and safety, are not subject to duplicative inspections. Comments on the proposed rule are due by July 2, 2012.

Mr. Olver #1

Public Housing Capital Finance

Question: How would a bond ratings downgrade or methodology change affect PHAs ability to maintain America's public housing stock?

Answer: A bond rating downgrade or methodology change would result in downgrades to the underlying ratings of all Capital Fund Financing Program (CFFP) bond related transactions, including over $1 billion in outstanding debt that rating agencies (e.g., Moody's, Standard and Poor's, Fitch) rate on a regular basis. The proposed Moody's downgrades would most likely range from A1 to low investment grade. A downgrade of this nature would jeopardize further PHA participation in the CFFP program and would dampen any future investor enthusiasm in the purchase of bond issuances, thereby further reducing development and modernization of America's public housing stock.

Mr. Olver #2

Public Housing Capital Finance-RAD Program

Question: Will bond rating downgrades or methodology changes impair your ability to get the anticipated results from the RAD program?

Answer: One of the main goals of Rental Assistance Demonstration (RAD) is to test the ability of PHAs to convert projects currently assisted through public housing's Operating Fund and Capital Fund to project-based Section 8 assistance in order to generate additional sources of financing, including debt and equity. HUD does not anticipate that rating changes for bonds secured by Capital Funds will directly negatively impact RAD, since projects participating in RAD will no longer be supported by the Capital Fund program. Rather than utilize Capital Fund Financing debt, which relies on Capital Fund appropriations for repayment, PHAs will gain access to a much broader toolkit of commercial lending sources and will use a combination of Section 8 funding and tenant rents to pay debt service. Nonetheless, the downgrade may indirectly impact RAD. To the extent that some lenders conflate the rating downgrade on Capital Fund Financing bonds with the credit-worthiness of the PHA more broadly, it is possible that some PHAs may face higher borrowing costs, reducing the funds available to rehabilitate and preserve the public housing stock.

Mr. Olver #3

Tenant-Based Section 8 Administrative Fees

Question: Provide a list of all PHAs that have turned back HUD-VASH vouchers in each of the past 3 fiscal years.

Answer: See list below.

	State	PHA name
FY 2010	CA	City of Fairfield
	GA	Atlanta Housing Authority
	GA	Jonesboro Urban Renewal Housing Authority
	PA	Lancaster County Housing Authority
	SC	Housing Authority of Spartanburg
	TX	Texas Dept. of Housing and Community Affairs
FY 2011	FL	Housing Authority of the City of St. Petersburg
	GA	Atlanta Housing Authority
	OH	Akron Metropolitan Housing Authority
	TX	Waco Housing Authority
	TX	Tyler Housing Authority
	WI	Housing Authority of the City of Milwaukee
FY 2012	FL	Northwest Florida Regional Housing Authority
	GA	Georgia Department of Community Affairs
	MA	Worcester Housing Authority
	OH	Cincinnati Metropolitan Housing Authority
	OH	Akron Metropolitan Housing Authority
	OH	Butler Metropolitan Housing Authority
	TX	Housing Authority of Waco
	TX	Beaumont Housing Authority
	TX	Denton Housing Authority
	WI	Waukesha Housing Authority

Mr. Olver #4

Tenant-Based Section 8 Administrative Fees

Question: Provide a list of all PHAs that have terminated or consolidated their tenant-based Section 8 programs in each of the past 3 fiscal years.

Answer: Please see attached chart. In addition to the PHAs listed in the chart, an additional five PHAs have requested to voluntarily transfer their HCV programs in FY 2012. Those transfers are currently pending but have not yet taken effect.

Data Request
Transfers processed

Mr. Olver #5

Section 811

Question: Can you please update the Subcommittee on progress in publishing a NOFA for this FY 2012 competition?

Answer: HUD expects to publish the Notice of Funding Availability (NOFA) no later than May 30, 2012.

Mr. Olver #6

Section 811

Question: What efforts have been undertaken by HUD to work with the state housing agencies to ensure that there will be an adequate number of applications?

Answer: In partnership with Health and Human Services (HHS) Centers for Medicaid and Medicare Services (CMS), HUD has had two webinars on the Project Rental Assistance legislation authorized by Frank Melville Supportive Housing Investment Act of 2010 to inform the state agencies of the new program and program requirements to ensure an adequate number of applications. The first webinar was held in November for state Medicaid agencies to inform them of the new program requirements. Working with the National Council of State Housing Agencies (NCSHA) who invited their membership, CMS and HUD had a second webinar in January that specifically focused on informing state housing agencies of the new program and Notice of Funding Availability (NOFA). More than 360 participants, representing 48 states, have participated in these webinars. CMS has also provided technical assistance to state Medicaid agencies to encourage them to reach out to their state housing agencies. For example, CMS provided $300,000 competitive grants through their Real Choice Systems Change program to 6 states to help them formulate robust partnerships between their housing and health care agencies in anticipation of this program

In addition, HUD and HHS staff have been speaking regularly at industry conferences, both in the housing and health care sectors, to help state agencies prepare for this opportunity. For example, in March 2012, HUD presented the new program at the Council of State Community Development Agencies (COSCDA) Community Development, Housing and Homelessness Program training session.

When the NOFA is published, HUD will announce the release on the HUD website and through email blast, will notify NCSHA, COSCDA, CMS and others so that email announcements can be sent to state housing and State Medicaid agencies. HUD will also hold a webinar on the NOFA soon after it is published and will post Questions & Answers to assist state housing agencies in understanding the NOFA.

Mr. Olver #7

Section 811

Question: How is HUD ensuring that PRACs funded through this competition will fund operating costs, and not debt service?

Answer: Section 811 Project Rental Assistance program funds will be made available to State housing agencies through a competitive Notice of Funds Availability (NOFA) that is expected to be published by the end of May 2012. The NOFA will detail the methodology by which that assistance will be provided to State housing agencies with particular attention to the eligible expenses and subsidy amounts that will be permitted to be provided to participating housing owners and developers through a long-term rental assistance contract. HUD will monitor State housing agencies' use of Project Rental Assistance funds expended throughout the duration of the contract period through compliance and enforcement provisions that will be included in the cooperative grant agreement.

Mr. Carter #1

FHA-Housing Crisis

Question: If the government had a smaller or non-existent role in 2009, how would we have recovered from this crisis? Isn't it true that FHA's role was instrumental in helping us start to recover from the housing crisis?

Answer: FHA played a critical role in mitigating the magnitude of the housing crisis. Were it not for FHA, hundreds of thousands of homeowners would not have escaped from their "exploding ARM" subprime loans in 2007 and 2008. Were it not for FHA, hundreds of thousands more homeowners with conventional mortgages could not have refinanced to historically low rates because of severe underwriting restrictions in the conventional market. Were it not for FHA, more than half of all first-time homebuyers, and more than half of all black and Hispanic homebuyers needing mortgages would have been shut out in 2009 and 2010.

To give you some sense of just how much FHA was able to contribute to the stability of American households during this crisis, the number of refinance actions for loans coming from the conventional market in FY 2008 alone (349,000) was more than the sum of all such actions from 2000 through 2006. In our peak year of assisting homeowners without refinance options in the conventional market, FY 2009, we assisted close to one-half million of them reduce monthly payment burdens and improve household cash flow. In terms of home-purchase mortgages, the 1.1 million home buyers we assisted in FY 2010 was surpassed only by the 1.2 million assisted in FY 1987, the last time there was a crisis in the conventional mortgage market.

Mr. Carter #2

FHA-Condominium Portfolio

Question: FHA has significant restrictions on the purchase of condominiums, which are often the most affordable choice for many first time homebuyers. Given that FHA's condominium portfolio is actually performing better than the single-family portfolio, can you explain the need for such restrictions?

Answer: Unlike single family dwellings, the performance of condominium units insured by FHA is very dependent on the overall success and health of the project in which they are located. Therefore, FHA recently updated its condominium project approval requirements as a means of prudently managing risk to the Mutual Mortgage Insurance Fund. However, FHA is aware that some stakeholders have concerns about some of the changes recently made to the project approval requirements. FHA has been in contact with a large number of interested parties regarding these issues and is currently working on revisions to its policies. We believe we can strike an appropriate balance whereby FHA can effectively manage its risk while ensuring that condominiums continue to play their important role in American homeownership. We expect to publish this revised guidance in the coming weeks.

Mr. Carter #3

FHA-Condominium Purchase Restrictions

Question: HUD continues to promote mixed use properties and high density as good choices for communities. Yet, FHA's condo rules prohibit the purchase of a condominium in a property with more than 25% commercial space. What is the purpose of this restriction, and doesn't it run contrary to the new "town center" model that HUD seems to be promoting?

Answer: While FHA's requirement regarding permissible commercial space is less restrictive than the industry standard of 20 percent and FHA has provided for an exception to 35 percent for those projects meeting additional eligibility criteria, we have been working on changes to our requirements that will better accord with the growing trend of mixed-use development while simultaneously managing risk to FHA.

Prior to recent changes in the housing market, mixed-use properties were not submitted for FHA condominium project approval. Now that they are subject to FHA project approval, FHA must develop standards for approval of these projects. Until standards are fully developed, these projects are reviewed on a case-by-case basis, taking into consideration that they tend to be riskier and oftentimes the primary use is more nonresidential than residential. Therefore, there is a need to review these projects carefully to ensure that approved projects contribute to FHA's mission of providing affordable, sustainable housing opportunities while balancing the risk to the Mutual Mortgage Insurance Fund. We expect to issue updated guidance regarding mixed-use development very soon.

Mr. Carter #4

FHA-Homeowner's Association Policy

Question: FHA prohibits purchase of a condominium or home in a homeowners' association if more than 15% of the units are delinquent with their association dues. The policy exists regardless of the financial standing of the association. Wouldn't it make more sense for FHA to focus on the overall financial health of the property and not set arbitrary rules?

Answer: The overall financial health of the property is considered when determining project eligibility. As mentioned previously, financial stability of a project is integral to its success and the collection of the required assessments is an important component of projects' financial success. FHA analyzes a number of project characteristics when considering an applicant for approval, including the project budget, income and expense statement from the prior year and a balance sheet. Analysis includes review of all financial data including special assessments and/or outstanding loans and their impact on the operation of the project.

As with the other questions posed on FHA's new condominium project approval requirements, FHA is presently looking at the issue of delinquent homeowners association dues as well. While FHA is in compliance with the industry standard and has provided for an exception to 20 percent for those projects meeting additional eligibility criteria, we have had many beneficial conversations with industry stakeholders on this matter and expect to offer changes to existing requirements in the coming weeks.

Mr. Carter #5

FHA-Home Appraisals

Question: In my office we often hear complaints from consumers and REALTORS® about problems with appraisals. Are you hearing problems? Are you concerned about the appraisal process?

Answer: Consumers and Realtors may often have value issues with appraisals that complicate transactions they are involved with, but it is important to recognize that both parties have a vested interest in the properties they seek to purchase and/or sell. Appraisers, by law, are required to comply with the Uniform Standards of Professional Appraisal Practice (USPAP), which, among other standards, requires appraisers to perform assignments with impartiality, objectivity and independence. The appraiser's role as a disinterested third party is to provide an unbiased opinion of value. This may, at times, be at odds with the negotiated contract purchase price, which while reflective of market activity may not reflect market values in a given area. Appraisal issues tend to center around a perceived inability of the consumer or realtor to be able to communicate directly with the appraiser because of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010, which prohibits undue pressure on the appraiser, and a separation of production and compliance in the lender's operation. This has caused a fair amount of confusion in the markets regarding what is allowed in terms of communication to the appraiser among all parties to the transaction including the appraiser. FHA has released guidance to appraisers and lenders through the release of Mortgagee Letter 2009-28 (entitled Appraiser Independence) to clarify what is acceptable.

Mr. Carter #6

FHA-Home Appraisal Management Companies

Question: I understand that banks can own Appraisal Management Companies (AMCs). Are you worried about conflicts of interest when a bank uses their own AMC to appraise the property they are lending on?

Answer: FHA, through the release of Mortgagee Letter 2009-28 (entitled Appraiser Independence), reaffirmed appraiser independence safeguards, which include prohibiting lenders and third parties from:

- Withholding or threatening to withhold timely payment or partial payment for an appraisal report.
- Withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser.
- Expressly or impliedly promising future business, promotions or increased compensation for an appraiser.
- Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an appraiser.
- Requesting that an appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report.
- Providing to the appraiser an anticipated, estimated, encouraged or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase must be provided.
- Providing to the appraiser, appraisal company, appraisal management company or any entity or person related to the appraiser, appraisal company or management company, stock or other financial or non-financial benefits.
- Allowing the removal of an appraiser from a list of qualified appraisers or the addition of an appraiser to an exclusionary list of qualified appraisers, used by any entity, without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's illegal conduct, a violation of the Uniform Standards of Professional Appraisal Practice (USPAP) or state licensing standards, improper or unprofessional behavior or other substantive reason for removal.
- Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless: (i) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file, or (ii) unless such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; or
- Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity or impartiality or violates law or regulation, including, but not limited to: the Truth in Lending Act (TILA) and Regulation Z and USPAP.

Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provides a series of appraiser independence safeguards for consumers which mirror some the safeguards detailed above and which are applicable to any Federally related transaction overseen by the Federal banking regulatory agencies (OCC, FDIC, Federal Reserve Board, National Credit Union Administration, etc).

Mr. Carter #7

FHA Regulations

Question: Can you name one regulation that your agency has proposed and published in the federal register that has been repealed?

Answer: FHA has periodically undertaken a review of codified regulations to eliminate or substantially revise sections that are determined to be obsolete or ineffective. In 1995, a streamlining effort removed regulations for a number of programs for which new insurance was not being issued or had never been issued. A more recent example is the repeal of 24 CFR 203.43e, effective on March 19, 2012. Promulgated in 1977, this rule created an implementation framework for the now-suspended single family Section 238(c) mortgage insurance program in military impact areas. It should also be noted that HUD is currently developing multiple FHA regulatory changes that respond to the directives of Executive Order 13563 that will result in the removal of regulatory requirements that are no longer relevant or have been found to be overly restrictive or burdensome.

Mr. Carter #8

Section 8 Project-Based Assistance Contracts

Question: Secretary Donovan, HUD's FY 2013 budget proposes significantly less funding than is required to fund Section 8 project-based assistance contracts during the FY 2013 fiscal year. HUD is proposing $639 million less than what was funded in FY 2012 and more than $1.1 billion less than the projected need. The gap created by requesting less funding is to be filled by funding two thirds of the expiring contracts for less than the normal twelve months. Three years ago, at the President's request, Congress funded as part of the stimulus bill, a previous Section 8 shortfall of $2 billion caused by such short funding of housing assistance payment contracts. Do you anticipate any such opportunity to replenish the shortfall that HUD's proposal, if enacted, will create? If not, where will the funds come from?

Answer: Under the Department's plan to administer our 2013 budget request for the Section 8 Project-Based Program, some contracts will receive less than 12 months of funding at the time of funding renewal, but all contracts will have adequate funding to meet project needs through at least the first quarter of fiscal year 2014.

During the fiscal year 2014 budget cycle, the Department will assess program needs within the context of the overall budget in order to identify the funds necessary to continue program operation.

Mr. Diaz-Balart #1

Community Development Block Grant Program

Question: Local government receiving CDBG formula funds are currently restricted by a 15% cap on public services included as part of the original statute enacted over 30 years ago. Public services include food delivery to homebound elderly residents, food halls for senior citizens, crisis centers for women and children, child care, and job training. This cap does not reflect the evolution of the program and the necessity to provide flexibility to local leaders on how funds should be expended. I am a cosponsor of legislation (HR 1359) that increases the public services cap from 15% to 25%. It doesn't increase or decrease funding—it just provides local communities the flexibility they need to meet their own unique challenges as they face a tight budget environment. What is HUD's position on this legislation? Is this type of flexibility something that HUD and the Administration can support? Or at least support creative ways to work with our local cities and counties to give them added flexibility that works best with their individual needs?

Answer: The CDBG program is primarily a community and economic development program. In most jurisdictions, infrastructure improvements and housing activities are the most significant uses of CDBG funds, representing 33 and 25 percent of total CDBG disbursements, respectively. In contrast, in 2011, CDBG grantees collectively used 11.4 percent of CDBG funds for public services activities --well under the statutory cap of 15 percent. Taking the CDBG program purpose together with the average use of funds for public service activities, HUD does not see a reason to alter this cap.

THURSDAY, MARCH 22, 2012.

DEPARTMENT OF TRANSPORTATION—MAJOR MODES FY 2013 BUDGET REQUEST

WITNESSES

MICHAEL HUERTA, ACTING ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION
VICTOR MENDEZ, ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION
JOSEPH C. SZABO, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION
PETER ROGOFF, ADMINISTRATOR, FEDERAL TRANSIT ADMINISTRATION

CHAIRMAN LATHAM OPENING STATEMENT

Mr. LATHAM. The Subcommittee will come to order. Today we welcome administrators from the largest modes at the Department of Transportation. In no particular order, we have with us Administrator Victor Mendez from the Federal Highway Administration, Administrator Peter Rogoff from the Federal Transit Administration, Acting Administrator Michael Huerta from the Federal Aviation Administration, and Administrator Joseph Szabo from the Federal Railroad Administration. We welcome each of you here today, and we thank you for coming, and we look forward to your testimony regarding the fiscal year 2013 budget request.

We do have a tight schedule this year. We are not able to have individual hearings, which is probably a relief to each of you, from the DOT modes, nor are we able to include all of the modes today. However, we are providing an opportunity for members to question the four largest modes, and we look forward to a productive discussion.

We are going to also have a series of votes, so when we leave for that, we will end the hearing. Because there is going to be an extended series of votes, the hearing is going to be somewhat limited, so we want to move along as quickly as possible. Mr. Olver, do you have any comments?

RANKING MEMBER OLVER OPENING STATEMENT

Mr. OLVER. Well, thank you all for being here. The Chairman has gone carefully through the first and last names, so I do not need to do that. As you know——

Mr. LATHAM. I have got it parenthetically written down.

Mr. OLVER. [continuing]. As you know, Secretary LaHood was with us earlier this month, and testified on the overall budget for 2013. I believe this proposal reflects the vision needed to ensure America's competitiveness of the global economy through job creating and investments in our nation's transportation infrastruc-

ture. And I look forward to discussing in more detail your respective portions of the budget. So thank you for being with us.

Mr. LATHAM. Thank you, Mr. Olver. And when the Secretary was here a couple of weeks ago, we decided to forgo opening remarks in the interest of time and it worked really well. We are going to ask you today to shorten your remarks to two to three minutes each, and after that, we will get right into questions. And, as always, your full statement will be part of the record. Administrator Mendez, you are recognized for two to three minutes.

Mr. MENDEZ. Thank you and good morning.

Mr. LATHAM. Good morning.

ADMINISTRATOR MENDEZ OPENING STATEMENT

Mr. MENDEZ. Chairman Latham, ranking member Olver, and members of the Subcommittee, thank you for this opportunity to discuss the Federal Highway Administration's fiscal year 2013 budget request. The President's request for FHWA includes $42.6 billion for a restructured federal highway program that will put Americans to work repairing bridges and repaving roads now, while making worthwhile long term investments in America's infrastructure.

FHWA programs not only help build and maintain our infrastructure, but also provide people across the country with transportation options to get to their jobs and other destinations.

Investment in highway infrastructure is critical to the success of our nation's economy. But the true impact of our investment is realized by delivering the best value for the taxpayer dollars. We must pursue better, faster, and smarter ways of doing business.

To that end, three years ago, I launched an innovation initiative that we call Every Day Counts to shorten project delivery time and speed the deployment and widespread use of new and proven technologies into the marketplace.

In combination with FHWA's innovation initiative, the President's fiscal year 2013 budget request will support thousands of jobs, improve safety, spur innovation that will shorten project delivery and accelerate the deployment of new technologies, make our communities more livable, and lay a foundation for future economic growth. Mr. Chairman, with that, I conclude my remarks and will be happy to answer your questions.

[The statement of Mr. Mendez follows:]

STATEMENT OF

THE HONORABLE MICHAEL HUERTA, ACTING FEDERAL AVIATION ADMINISTRATOR

THE HONORABLE VICTOR MENDEZ, FEDERAL HIGHWAY ADMINISTRATOR

THE HONORABLE PETER ROGOFF, FEDERAL TRANSIT ADMINISTRATOR

AND

THE HONORABLE JOSEPH SZABO, FEDERAL RAILROAD ADMINISTRATOR

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES

March 22, 2012

Introduction

Chairman Latham, Ranking Member Olver, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the Administration's fiscal year (FY) 2013 budget request for the Federal Aviation Administration, the Federal Highway Administration, the Federal Transit Administration, and the Federal Railroad Administration at the U.S. Department of Transportation.

The FY 2013 President's Budget requests a total of $74 billion for Transportation, which reflects the first year of a bold six-year $476 billion surface transportation reauthorization proposal. This proposal will be fully paid for using the savings achieved from reduced Overseas Contingency Operations.

The President has called on us to rebuild America – to put people back to work repairing our roads, bridges, transit systems, and airports. To achieve this, he has laid out a blueprint for "an America that's built to last" – a plan that will equip American workers to seize the opportunities of tomorrow and make certain that businesses and families have the safest, fastest, and most efficient ways to connect with these opportunities.

Federal Aviation Administration (FAA)

The President's FY 2013 budget request of $15.2 billion for the FAA is a fiscally responsible investment that supports our safety and efficiency mission. It allows us to maintain appropriate staffing for air traffic control and aviation safety as well as research and development, and capital investment in both airport infrastructure and FAA facilities and equipment. Within this amount, over $1 billion is requested to advance the modernization of our air traffic system through NextGen. In addition, approximately half of our budget request is

devoted to maintaining and improving the agency's safety programs. This involves all of the FAA's departments, which fund a range of activities such as air traffic separation, safety inspections, buying new safety equipment, aviation research, and airport safety improvements. It also includes rulemaking and certification activities to move NextGen and commercial space initiatives forward.

We are very grateful that Congress passed our new four-year aviation authorization bill that will continue critical safety programs, create jobs, and facilitate the implementation of NextGen. We are currently analyzing the bill's provisions and expect to have a full evaluation of all the programmatic and budgetary implications completed soon. We realize that our FY 2013 budget may not match up perfectly with all of the provisions in the bill and look forward to working together with Congress to address those differences.

Modernizing our national airspace through NextGen is necessary to provide the efficiency and flexibility for our aviation system to support the nation's economic growth. We are working to deliver many of the recommendations from industry and stakeholders that will result in early benefits. The FY 2013 budget includes $1 billion for NextGen, an increase of almost $100 million, or 11 percent, over FY 2012. The FY 2013 budget represents a significant commitment to ensuring accelerated deployment of ongoing Performance Based Navigation (PBN) development, and allows us to streamline the development and deployment of NextGen navigational procedures in airspace around our nation's busiest metropolitan areas. The budget also includes $12 million for the Joint Planning and Development Office (JPDO) to continue coordinating goals, priorities, and research activities within the federal government for both NextGen and UAS integration into our airspace. In addition, the budget includes $95 million for the planning, engineering, design, and site selection of a new air traffic control facility that is a template for the way we will do business in the future. This facility will house in one place employees who perform both high-altitude and low altitude separation of traffic, making it easier to coordinate the air traffic in heavily-used airspace.

Our FY 2013 request of $2.4 billion for the Airport Improvement Program ensures the safety, capacity, and efficiency of our nation's airports through a combination of focused grant funding and an increase in maximum Passenger Facility Charges (PFCs), from $4.50 to $7.00. This would give large and medium hub airports greater flexibility to generate more revenue for airport development projects. To assist those airports that need the most help, the proposal focuses federal grants on smaller commercial and general aviation airports that do not have access to additional revenue or outside sources of capital.

Federal Highway Administration (FHWA)

The President's FY 2013 Budget requests $42.6 billion for FHWA to help move people and goods as safely and effectively as possible on roads, bridges, and tunnels throughout the country. Increased highway funding will allow States to provide the necessary transportation infrastructure to expand access to jobs, education, and health care in the short term and lay the foundation for our nation's future economic growth.

In order to deliver the best value for every taxpayer dollar, it is imperative we pursue better, faster, and smarter ways of doing business. To that end, in 2009 FHWA launched an innovation initiative called Every Day Counts (EDC) to shorten project delivery time and to speed the deployment of new and proven technologies into the marketplace. EDC is about taking a select number of effective, proven processes and market-ready technologies and getting them into widespread use. Both can have a direct impact on shortening project delivery and cost avoidance. The President's budget builds on the progress made through EDC.

The budget request reflects a program restructuring and funding proposal to provide $305 billion from FY 2013 to 2018 for highway programs. The new program structure includes five core programs: Highway Safety; National Highways; Livable Communities; Federal Allocation; and Research, Technology, and Education.

Although we have made significant progress in reducing fatalities on our nation's roadways, keeping travelers safe on our transportation systems remains our top priority. The request includes over $2.5 billion in FY 2013 for the performance-based Highway Safety Program, almost doubling the Federal investment in highway safety. The Highway Safety Improvement Grant Program, the largest component of the Highway Safety, will provide $2.2 billion for infrastructure-oriented safety improvement projects to help reduce fatalities and injuries on public roads while providing States with the flexibility to use a portion of the funding for education, enforcement, and emergency medical services investments. The budget request also includes $293 million for a Highway Safety Data Improvement Program to focus on improved collection, use, and analysis of safety data.

The budget includes $32.4 billion for the performance-based National Highway Program (NHP), which will invest in the preservation and modernization of roads most critical to our national interest. Consisting of two components, the Highway Infrastructure Performance Program and Flexible Investment Program, the NHP will give States flexibility to make transportation investment decisions on the larger system of Federal-aid eligible highways by consolidating several existing programs and their eligibilities, including the Interstate Maintenance, National Highway System, Surface Transportation, Highway Bridge, and Appalachian Development Highway System programs. The budget provides $16.8 billion for the Highway Infrastructure Performance Program to maintain and improve the National Highway System, which would include approximately 220,000 miles of roads most critical to our economic competitiveness. The Flexible Investment Program will direct $15.6 billion to maintain and improve highways and bridges on any currently eligible Federal-aid highway and provide specific funding for several critical areas, including metropolitan planning and off-system bridges. In addition to maintaining highway infrastructure in a state of good repair, the program will target investments to improve safety, reduce traffic congestion, and make freight movement more efficient.

The request includes $4 billion for the Livable Communities Program to support planning and investments to help communities increase transportation choices and access to transportation services. The Livable Communities Program will provide States additional flexibility by consolidating and incorporating eligibilities from the Congestion Mitigation and Air Quality Improvement, Transportation Enhancements, Safe Routes to Schools, Scenic Byways, and

Transportation, Community, and System Preservation programs. It will fund transportation projects that improve quality of life in both rural and urban areas, including improved air quality in large metropolitan areas, while providing users with enhanced and affordable transportation choices.

The budget includes $1.4 billion in FY 2013 for the Federal Allocation Program, which will combine inherently Federal responsibilities within five components. The Federal Lands Transportation program will provide $430 million using a performance-based management model to fund projects to improve access to and within the Federal estate on infrastructure owned by the Federal government. The Federal Lands Access Program will provide $177 million for projects that improve access to the Federal estate on infrastructure owned by States, counties, and local governments. The Tribal Transportation Program will dedicate $600 million to fund projects that will provide access to basic community services to enhance the quality of life in Indian country. The Emergency Relief Program will offer $100 million for States to repair and reconstruct Federal-aid highways and roads on Federal and tribal lands following a disaster. Finally, the Workforce Development program will provide $50 million for the On-the-Job Training/Support Services program to support State training programs and the Disadvantaged Business Enterprise/Supportive Services program to develop, conduct, and administer training and assistance programs to increase the proficiency of minority businesses to compete, on an equal basis, for contracts and subcontracts.

The request includes $644 million in FY 2013 for the Research, Technology, and Education Program, which will apply innovative technologies to construct and maintain the nation's roads, bridges, and tunnels, which keep the highway system in a state of good repair. Specifically, the Highway Research & Development Program will include $200 million for research activities associated with safety, infrastructure preservation, environmental mitigation and streamlining, operations, livability, innovative program delivery solutions, and policy. The Technology and Innovation Deployment Program will provide $144 million to address testing, evaluating, and accelerating the delivery and deployment of technologies. The Training and Education Program will offer $40 million to train the current and future transportation workforce.

The budget request includes $500 million in FY 2013 for the Transportation Infrastructure Finance and Innovation Act (TIFIA) program to cover the subsidy cost of providing credit support to surface transportation projects of regional or national significance. TIFIA funding can leverage Federal dollars by approximately tenfold, so that a relatively small Federal commitment can stimulate a large amount of State, local and private investment.

Recognizing that competition often drives innovation, the President's budget also requests $700 million in FY 2013 to establish a competitive Transportation Leadership Awards program to incentivize State departments of transportation, metropolitan planning organizations, tribal governments, and other transportation agencies to make the reforms necessary to institutionalize best practices and innovations in transportation policy.

To oversee the important programs and activities described above, the President's budget requests $441 million in FY 2013 for FHWA administrative expenses. These resources are

essential for FHWA to perform critical oversight functions and successfully implement the programs proposed in the budget.

The FHWA FY 2013 budget request will simplify the highway program structure and establish a performance-based highway program in the critical areas of safety and state of good repair. Under this structure, FHWA will provide national leadership to connect America's communities and economies and enhance the safety, condition, efficiency, and livability of our nation's highway system.

Federal Transit Administration (FTA)

The President's FY 2013 budget for FTA requests $10.836 billion, a 2.2 percent increase, or $228 million, above the FY 2012 enacted level. The budget continues the Administration's commitment to expand transit options for Americans and return transit systems to a state of good repair. The budget restates the Administration's call for FTA to have new rail transit safety oversight authority. The budget request will make transit systems more reliable, efficient, desirable, and safe for the tens of millions of travelers who use them every day. Transit is an important part of a balanced transportation system for communities across the country and making investments in public transit helps ensure urban, suburban, and rural communities have a variety of transportation options.

The Secretary's number one priority is transportation safety, and rail transit safety is an area that requires immediate attention from Congress to address glaring vulnerabilities faced by the traveling public. There is considerable concern nationwide about rail transit safety, particularly after recent high-profile collisions and other accidents that killed and injured dozens of passengers and workers and resulted in tens of millions of dollars in property damage.

A Secretarial working group found that the Nation's current approach to rail transit safety oversight is dangerously lacking and haphazard. That working group gave rise to the "Public Transportation Safety Program Act of 2009," transmitted to Congress by the Secretary in December 2009 on behalf of the President. We need to address this urgent need and are pleased that both the House and the Senate have included varying levels of new rail transit safety responsibilities in their surface transportation bills.

The Administration's transit safety legislative proposal repeals an antiquated provision of law dating back to 1964 that prohibits the FTA from establishing even the most minimal safety standards for rail transit systems funded with Federal dollars. For FY 2013, FTA again seeks new authority and funding to greatly improve and oversee 27 underfunded and inadequate State Safety Oversight agencies. Of FTA's $45 million safety request, $36 million would fund up to 25 Federal rail inspectors, if needed, and grants to States to conduct their own rail transit safety oversight inspections. The remaining $9 million will support a new FTA safety and oversight office that will set policies and standards for FTA's rail transit safety program and oversee compliance with FTA grant requirements.

FTA's budget also focuses on the need to bring our nation's transit network into a state of good repair by proposing significant spending on transit capital projects through a new $3.2

billion Bus and Rail State of Good Repair program -- an increase of 21 percent compared to the FY 2012 enacted amount for the fixed guideway modernization and bus programs. Strategic infrastructure investments have long-term economic benefits, but currently those benefits are not being fully realized because of years of under-investment in maintaining and recapitalizing our public transportation infrastructure. As evidence, FTA conducted a study in 2010 that found a $78 billion backlog of bus and rail transit assets nationwide that need to be repaired or replaced. An earlier FTA study found a $50 billion backlog at the seven largest and oldest rail systems.

Replacing and rehabilitating aging transit infrastructure with newer and more reliable track, signal systems, vehicles, and stations will help ensure the safe and dependable transit service expected by the American public. FTA also proposes that transit agencies use State of Good Repair grant funds to purchase asset management systems, which are critical to the success of good capital improvement plans. With these systems in place, transit agencies can systematically monitor the condition of their assets and will be able to make systematic and strategic investment choices. As transit agencies are better able to manage and report on the condition of their capital assets, FTA will be in a better position to measure progress toward a state of good repair.

For FY 2013, FTA requests $2.2 billion for its Capital Investment Grants program, a 14 percent increase above FY 2012 enacted level. These funds will enable FTA to partner with 29 project sponsors around the nation who are undertaking major projects that expand their transit services. Moreover, to provide on-going support for existing transit services, FTA requests $4.8 billion for transit formula grants, including the Urbanized Area Program, Non-Urbanized Area Program, and a new Consolidated Specialized Transportation Grant program. This latter program would improve mobility and job access for low-income persons, and provide transportation options for senior citizens and individuals with disabilities.

All transit agencies regardless of size feel the effects of down-turns in the economy and must manage budgetary pressures by reducing services or raising fares, or both, at the same time the public needs greater transit options to locate and reach jobs. To provide large transit agencies a bridge to recovery, the Budget proposes to give them the option of using up to 25 percent of their urbanized area apportionment to fund operating costs on a temporary and targeted basis.

FTA's budget also includes a new $30 million competitive Livability Demonstration Grant program to test different approaches to promoting livability in urban, rural, and tribal communities and $25 million for a Public Transportation Emergency Relief Program to support the immediate needs of public transportation providers in the wake of natural disasters.

The President's FY 2013 budget makes a strategic investment in FTA's request for administrative expenses. Since FY 1997, FTA has operated at roughly the same staffing level (full-time equivalent or FTE level), while its program size and the number of grants made each year have more than doubled. Moreover, the number of programs and projects with challenging designs and financing strategies has also grown, and this growth does not include the new programs and requirements proposed in this budget. Consequently, FTA requests $121 million for its Core Operations to support 47 additional FTE compared to the FY 2012 enacted level.

This increase will ensure that FTA can carry out its basic fiduciary responsibilities of making and overseeing a multi-billion dollar grant portfolio.

Federal Railroad Administration (FRA)

The President's FY 2013 Budget requests $2.7 billion for FRA's rail safety and passenger rail programs. Of this amount, the budget includes $2.5 billion for the National High Performance Rail System. These funds are for developing high-speed rail infrastructure and passenger stations, equipment procurement, and building institutional capacity as well as for continuing to maintain our existing rail assets and operations. This funding represents the first year of a six-year $47 billion proposal to substantially improve the nation's passenger rail.

FRA is working with States across the country to plan and develop high-speed and intercity passenger rail corridors. These projects include upgrades to existing services, as well as entirely new rail lines exclusively devoted to 125 to 220 miles per hour trains. These corridors will promote economic expansion, create new choices for travelers, reduce National dependence on oil, and foster livable urban and rural communities.

FRA is already putting America on track towards providing rail access to new communities and improving the reliability, speed, and frequency of existing lines. To date, Congress has provided more than $10 billion in grant funding for high speed rail through the American Recovery and Reinvestment Act (ARRA) and annual appropriations for FY 2009 and 2010. Interest in this program is strong: 39 States, the District of Columbia, and Amtrak have submitted applications -- well in excess of the available funding -- for projects and corridors in every region of the country.

FRA has invested over 85 percent of the current High Speed Rail funds in five key regions. This funding will improve existing services, spur new passenger rail capabilities, and initiate long-term planning activities. Ninety-five percent of the funding is committed to corridors that will operate at 90 miles per hour or faster -- and nearly 50 percent of these dollars support corridors that will operate at speeds greater than 125 miles per hour. These projects will ultimately lay thousands of miles of track and ties, build new stations and make existing facilities more functional, comfortable, and accessible for all passengers, install advanced signaling and communications systems, and procure hundreds of modern and more efficient locomotives and passenger cars. Going forward, FRA will continue to focus on projects offering the greatest public benefits, as well as those projects ready for implementation.

Since 2009, FRA has obligated 98 percent of the Recovery Act funding and we are committed to our 32 State partners in providing assistance through monitoring, oversight and project management until those projects are completed. Our strict "Buy America" requirement ensures that tracks, cross-ties, train sets, construction materials, and new stations are built in America and support domestic manufacturers and suppliers. With 154 rail projects in five key regions, high speed rail reaches out to 65 percent of the population. In Normal, IL, more than $200 million in privately-financed station-oriented development is underway. Our state partners in the Midwest recently launched 110 miles-per-hour service on 90 miles of track between Kalamazoo, Michigan and Porter, Indiana – the fastest trains outside of the Northeast Corridor.

However, the effort is only beginning. The plan is to expand the service and cut nearly two hours off the Detroit-Chicago passenger rail trip within three years.

To further safety, the President is requesting $196 million for operations and rail safety programs. While the rail industry has experienced one of its safest decades ever, our goal, as always, is to make it even safer. The budget will enable FRA to build upon the successes achieved, and expand new and innovative approaches like our statutorily endorsed Risk Reduction Program.

The request will support FRA's ability to successfully complete the remaining statutory mandates set forth in the Rail Safety Improvement Act of 2008, which include new regulations, studies, and reports. It will also ensure successful oversight and management of previously appropriated high speed and intercity passenger rail grants including development, necessary analysis, and safety factors testing. In addition, this request supports major projects, and allows FRA to move forward with implementation of innovative technologies like Positive Train Control as well as new initiatives that address human factors contributing to accidents and incidents.

States are embarking on some of the most ambitious, most complex rail infrastructure projects in decades, and FRA has responded with new training programs to get our inspectors up to speed. Consensus-based safety initiatives under the umbrella of the Railroad Safety Advisory Committee and similar partnerships continue to pay immense dividends. Simultaneously, the Risk Reduction Program and Confidential Close Call Reporting System are burgeoning industry-wide efforts to build an even stronger safety culture. Combined, these efforts will help FRA continue to drive down the number of accidents, fatalities and injuries – including those at highway rail-grade crossings and along rights of way – even as our network expands.

Conclusion

Thank you for the opportunity to appear before you to present the President's FY 2013 budget request for the Federal Aviation Administration, the Federal Highway Administration, the Federal Transit Administration, and the Federal Railroad Administration at the U.S. Department of Transportation. The President's budget charts a bold new course for transportation infrastructure investment in the United States. We look forward to working with the Congress to put people back to work making a transportation system that is the envy of the world – and an America that is built to last. We will be happy to respond to your questions.

# # #

ADMINISTRATOR ROGOFF OPENING STATEMENT

Mr. LATHAM. Thank you very much. Why do not we go to Administrator Rogoff?

Mr. ROGOFF. Thank you, Mr. Chairman, Mr. Olver, members of the Subcommittee. I am going to highlight just a couple of the Obama Administration's priorities for public transit this morning. Our funding request for safety is our first and highest priority. Our 2013 budget renews our request for $45 million to go along with new authority that the Obama Administration has been seeking since 2009, to enable the FTA to develop and enforce common sense safety oversight standards for rail transit.

The transportation authorization bill that passed the Senate by a wide bipartisan margin included many of the safety provisions requested by the administration. Even the deeply flawed and troubled bill that was reported by the House T&I Committee significantly expands FTA's responsibility for safety.

In the past two budget cycles, this Subcommittee has deferred our request for new safety resources on the grounds that our authority had not yet been expanded. That expansion is about to come in some form, and it is long past time that we were able to move forward on these important safety improvements. Quite frankly, the status quo on rail transit safety oversight is really indefensible. I really implore you to take a hard look at our safety request this year, because, like I said, our authority is about to be expanded and we do need resources to address this issue.

Transit ridership is, again, climbing to record levels, and the growth is occurring across all communities in America, both urban and rural.

According to FTA data, transit ridership rose in January by a healthy 5.1 percent over the same period a year ago. We have some transit agencies, frankly, that are reporting growth of 10 to 20 percent this year, and that comes without any expansion in bus route service or rail service; it is just ridership spiking to that degree.

While transit ridership was increasing well before the recent rise in gas prices, those higher prices now threaten to undermine the ability of transit agencies to provide the increased level of service that the public is demanding. Transit agencies have to pay the higher fuel costs just like everybody else. It is worth pointing out that the majority of transit trips in America are still taken by bus. That makes our budget request for temporary and targeted operating assistance all the more critical.

Finally, FTA also needs appropriate staffing levels in order to oversee federal funds and ensure they are spent properly. The fact is, the FTA has far fewer people overseeing more taxpayer money to more grantees than almost any other government agency. So I encourage you to look at those comparisons. We seek your support for a modest staffing increase even at a time when we know that staffing increases are hard to come by. Thank you, Mr. Chairman, that is all I have.

ADMINISTRATOR SZABO OPENING STATEMENT

Mr. LATHAM. Thank you, Mr. Rogoff. Let us go to Mr. Szabo here with the Federal Railroad Administration.

Mr. SZABO. Thank you, Mr. Chairman, to you, ranking member Olver, members of the Subcommittee. It is an honor to appear before you today on behalf of President Obama and Secretary LaHood to discuss the President's proposed fiscal year 2013 budget for FRA.

With 100 million more Americans by the year 2050, we must take aggressive action to increase our transportation networks capacity. High speed and modernized inner city passenger rail will boost capacity and alleviate the huge pressure on modes already weighed down by congestion.

Since the year 2009, FRA has obligated 98 percent of the Recovery Act funding that started funding for the high speed and inner city passenger rail program. Our 32 state partners building out rail projects will provide service to 65 percent of our population in five regions. This year, there are $1.65 billion of high speed and inner city passenger rail program projects that are under construction. Throughout the country, we are seeing examples of how connecting a town to passenger rail is triggering surges in new business and development. With the new 110 mile per hour service recently achieved in the Midwest, higher speed rail has officially expanded outside of the northeast corridor.

The President's budget request includes $2.5 billion for rail projects, and the budget also requests $196 million for our top priority, which is safety. As the rail network grows, the President's funding request for safety will help us remain innovative in reducing accidents. We want to keep making progress addressing the human element in building stronger safety cultures.

FRA is committed to true 21st century rail and to working with our state partners to better move people and goods. The systems will not appear overnight, but they will put people back to work today rebuilding America and ensuring that we make good on a basic promise, that the country we leave for our grandchildren is even stronger than the country our grandparents left for us.

ADMINISTRATOR HUERTA OPENING STATEMENT

Mr. LATHAM. Thank you, Mr. Szabo. Mr. Huerta.

Mr. HUERTA. Thank you very much. Good morning, Chairman Latham, ranking member Olver, and members of the Subcommittee. Thank you for the opportunity to discuss the administration's fiscal year 2013 budget request for the FAA. Our $15.2 billion budget is fiscally responsible and represents an important investment. It supports our mission to deliver the safest and most efficient aviation system for the traveling public.

This budget allows us to maintain appropriate staffing for air traffic control, to keep pace with safety inspections, and to continue critical investments in both airport infrastructure and in NextGen technologies.

We are always striving to make our system safer. The FAA has made important advancements in improving safety such as the new flight duty and rest requirements for pilots that we announced last December. And we are working toward a final rule that required air carriers to implement safety management systems.

We aim to improve cost efficiency, and we are tightening our belt internally at the FAA, as well. We had to make hard choices in this

year's budget about how to maximize benefits, and, for example, we are focusing our airport grants on smaller airports.

We thank Congress for our four year reauthorization which will continue vital safety programs, create jobs, and support NextGen. The FAA forecasts that air traffic will nearly double in the next 20 years, and to handle this growth, we need to transform our aviation system through NextGen. We are moving from the ground base navigation and surveillance system of the last century to the satellite based system of the 21st century. The FY 2013 budget request includes $1 billion toward those efforts, and at the same time, the budget maintains our existing infrastructure which must perform flawlessly every day while we pursue this transformation.

NextGen will deliver more on time and fuel efficient flights and continue to ensure that we operate the safest air transportation system in the world. It is a better way of doing business for the FAA, for the airlines, for airports, and for the traveling public.

These improvements are vital to expanding on the 10 million jobs that civil aviation creates and the $1.3 trillion the sector contributes to the U.S. economy. I thank you for your support of America's aviation system and for keeping this vital economic engine running at full throttle. Thank you.

HIGHWAY TRUST FUND

Mr. LATHAM. Very good. Thank you all for your brief opening statements. We will do five minute rounds if we can so everybody can get questions in with our limited time. If we could try to stay to that five minutes, Mr. Olver, we will do that, I know.

Administrator Mendez, the Highway Trust Fund as we know it is unsustainable. Your estimate for the trust fund is to run out of money in the summer of 2013 if we continue to spend at the current levels without any new sources of revenue. The FY 2013 budget would put an eight year band aid on the problem by using the supposed OCO savings to fund increased spending and making all surface transportation spending mandatory, even though there is no long term revenue source to pay for it. Essentially, the budget would abandon the user supported trust fund model that has been in place since 1956. First of all, I guess, are you comfortable with abandoning that model that has worked in the past?

Mr. MENDEZ. Mr. Chairman, the President's proposal certainly addresses the benefits of our investments in transportation, so that is what we are focused on. Moving forward with recommendations in terms of how to actually pay for all of that, we are comfortable with that approach.

Mr. LATHAM. That is a yes. At our hearing with Secretary LaHood, members of the Subcommittee made it clear that we do not view the OCO as legitimate revenue because it would have to be borrowed money, if, in fact, that money were to be spent in the future, which no one is anticipating.

We are not willing to increase our country's already enormous mandatory spending. I think it is telling that neither the House nor the Senate authorization bills propose any kind of mandatory shift in transportation spending. Is it not time to abandon this, I mean the idea of going to mandatory?

Mr. MENDEZ. Well, as I said, our proposal, as it stands today, is pretty clear on that point. We believe that is the way to go. I know there is some disagreement on the OCO component. But if you look at the CBO recommendations, I believe CBO actually scores OCO. So we are comfortable with that approach.

Mr. LATHAM. Okay. Have you submitted anything to do that?

Mr. MENDEZ. No, we have not.

Mr. LATHAM. If Congress is unable to pass new authorization by the time we mark up this bill, I guess we have to assume it is an extension of SAFETEA–LU. And without new authorization, it says the trust fund can only sustain about nine billion in FY 2013 highway spending if we maintain the $4 billion balance, which you recommend, otherwise you have delays for the states. And if we take the trust fund down even further to a zero balance in 2013, we can spend about 22 to 24 billion, although the states would have delays in their reimbursement. Would you want to tell us about the difficulties if, in fact, we get into that scenario?

Mr. MENDEZ. Well, if we get into that scenario, I think if you run through the numbers, that would equate to maybe a 30 to 35 percent reduction in highway investment—it would be devastating. I think you hit it on the nose. When we reimburse states, there would be a delay in that regard. The states themselves would have a hard time trying to plan the major projects that make a difference. I am sure some states would be able to continue with some of the smaller, minor projects, pavement preservation and such, but I think as you look at our needs throughout the entire nation, the major projects that are critical from a national perspective probably would not move forward.

Mr. LATHAM. Okay. We are doing a lot better than last year.

Mr. MENDEZ. Yes, we are. Yes, sir. Thank you.

EMERGENCY RELIEF FUNDS

Mr. LATHAM. At least you are kind of answering questions. I actually applaud you for getting the emergency relief dollars out. Places like Iowa, they got hammered last year, that was extraordinarily important. And each year the authorizing committee is provided about 100 million in emergency funds. The rest, which totaled 1.7 billion last year, is provided by the Subcommittee. And we have got to make sure that the largest disaster expenses submitted by the States are sound.

The GAO report said you could do a better job documenting and verifying emergency damage estimates. Are you doing anything to follow their recommendations?

Mr. MENDEZ. Yes, sir, we are. And I do want to backtrack a little bit. I want to say that I did go to Iowa to do the ribbon cutting on I–685. They were able to turn that one around really—well, I will leave that up to the state. But, the important thing was, we were able to turn that around rather quickly, in three months. Obviously, the weather helped, so that was really good for your state.

We are continuing to look at those recommendations from GAO. We are looking at modifying our manuals and looking on a nationwide basis through our structure to ensure that we improve upon the reporting structure. We do monitor the ER expenditures very

closely. And, we are always open for any room for improvement. I am supportive of that.

Mr. LATHAM. Okay. Thank you. Mr. Olver.

TRANSPORTATION STATE OF GOOD REPAIR

Mr. OLVER. Thank you, Mr. Chairman. I just want to start out slowly here. I am going to ask a question that I would like an answer from each one of you. The last budget, the 2009 budget was the last budget under the SAFETEA–LU Authorization Act.

We have had now at least three budgets since then, the '10, '11, and '12 budgets, and we are trying to write now the 2013. There have been eight extensions of the SAFETEA–LU budget in that period of time, short term extensions that have gotten us through that group of years. Now, in 2009, the American Society of Civil Engineers gave grades for America's infrastructure that fell from C minus to D minus. And I am not going to list each one of your grades, you probably know what they were. Each of your agencies has done their own evaluation of the state of good repair and needs of your modes, events, and initiatives to address the infrastructure deficiencies.

I would like each of you, and it has got to be fairly short and concise, more concise than my question, to assess the progress that you have been able to make over these last three years. Has your agency been able to achieve a better grade than the ASCE gave you three years ago in the area of state of good repair? Okay. And we will go from Mr. Rogoff down the line.

Mr. ROGOFF. Well, the short answer to your question, sir, is, no, and let me explain why. We have a considerable backlog of unmet needs in transit, some $78 billion by our own estimate in unmet capital needs. Now, the Recovery Act did a very good job in helping us buy down some of that backlog.

But the reality is, the backlog increased faster than we could buy it down with the Recovery Act. So we have basically been treading water, and absent a reauthorized program that allows us to set a new course that includes our new state of good repair program, we are going to continue to tread water. As far as our grade on that, it sort of reminds me of my son's performance in algebra right now, sort of barely passing and lots of room for improvement. And I think that is where we are in transit across the country.

Mr. OLVER. Mr. Mendez.

Mr. MENDEZ. Yes, sir. Thank you. I would agree with my colleague. ARRA, in fact, in the highway arena did help quite a bit. We made a lot of improvements. But again, the demand out there, as you are all aware, is overwhelming. I can tell you that over the last decade or so, our deficient bridges did drop from 31 percent to 29 percent. So we do have a good handle on bridges and safety on roadway conditions.

And that is in spite of the increase in traffic volumes and all of that. So I know you understand there are a lot of issues out there.

But I would say one other thing, that if you look at what is happening on a national basis, and probably all of you face it in each and every one of your states, when it comes to the major projects, the ones that make a real impact not only from a state perspective, but from a national perspective, we are lagging in that.

We do not have the resources. And each and every one of you is probably struggling with at least one project in your state that cannot move forward that would make a major impact.

Mr. OLVER. Okay. Would you say your grade—you have earned a grade higher or is it deteriorating?

Mr. MENDEZ. Well, unlike my colleague, I do not have kids, so I do not go by grades. I am looking at my statistics.

Mr. OLVER. All right. We do not need to spend the time then. Mr. Szabo.

Mr. SZABO. I do not think there is any question with congestion costing our nation nearly $130 billion a year, that it is effecting our economic competitiveness. From a rail standpoint, I believe we have made good progress in the past three years in expanding and advancing our infrastructure for both freight and passenger rail.

The TIGER program has done a great job—targeting investments to expand the use of freight rail. And in the passenger rail program, we are seeing some great substance actually take place this year.

As I mentioned in my testimony, you will see 110 mile an hour operations on both the Chicago/Detroit segment and Chicago/St. Louis segment this year. And within the next two and a half years, roughly 80 percent of Chicago/Detroit and roughly 75 percent of Chicago/St. Louis will be at those sustained speeds of 110 miles per hour including——

Mr. OLVER. And some of that may not be state of good repair. But I would generally agree with you, you were a smaller agency three years ago and we have put a lot of effort into it, so some of that has to have gotten to state of good repair. Mr. Huerta.

Mr. HUERTA. I also have a son taking algebra, so I do follow grades. We were given a grade of D in 2009. As you know, the FAA has to operate and sustain the existing infrastructure while making the transformation to NextGen, and we have made very good progress on that in the last three years.

Some of the achievements to date include modernizing the automation of the base infrastructure that we have for air traffic control. Our en route automation modernization is replacing a 40 year old host system that we use to separate air traffic into high altitudes.

We have a companion program that looks at terminal automation modernization, and that process modernizes the RADAR processing in display systems that air traffic controllers use at or near the nation's major airports.

At the same time, we are also accelerating benefits associated with this technology.

Mr. OLVER. How much has your grade improved in all of this?

Mr. HUERTA. I have not checked my grade lately, but I think it has gone up.

Mr. LATHAM. Judge Carter.

CONTRACT TOWERS

Mr. CARTER. Thank you, Mr. Chairman. Mr. Huerta, the President's '13 budget proposes a $2 million cut in the FAA contract tower program. This is one of the most successful, cost effective air traffic safety programs around.

While this may not sound like a lot of cut for the size of this federal budget, it represents a potentially $8,000 cut per contract tower distributed equally among the 248 airports. If only general aviation airport control towers are hit, it would be a $16,000 cut per airport.

In Texas, we have invested a great deal of time and money constructing contract towers with the understanding that the FAA would provide funding for the operation.

Georgetown Airport, which is in my district, in fact, quite close to my home, is a general aviation airport. And all across Texas—we are involved in this program. Can you explain why the administration is recommending reductions when this is a very cost effective safety program for the general aviation at least?

Mr. HUERTA. Certainly. The contract tower program and the cost share elements, one of the things that the President has suggested is we re-examine and analyze the cost benefit calculation that determines the relative amount of local share that goes with it. The President's proposal is to update the cost-benefit calculation and increase the local share requirement. At the same time, however, we do recognize that reauthorization has asked for an 18-month moratorium on updates to be made before those changes would actually be implemented. So that will make it difficult to achieve the $2 million cost saving that we project based on the President's request for 2013.

Nonetheless, I think the question is still out there, that it does make sense for us to update the cost share formulas associated with the contract tower program. We have not done that for four years and it is something we need to do. We want to work with all of the stakeholders to come up with an equitable resolution there.

Mr. CARTER. Many view this as sort of a move against general aviation. General aviation creates 1.3 million jobs and contributes $150 billion to our economy. It is important to us. In Texas alone, we have 391 public use airports, 50,932 pilots, 31,690 general aviation aircraft. It is an important part getting across a big state.

In fact, anybody in politics in Texas that is running state-wide and does not have access to a private airplane is not going to get elected. It is just generally that important. And I am asking the question directly. There are many in general aviation that think that the issue with contract towers is just one step in the discouraging general aviation. What is the Department of Transportation and the FAA doing to encourage general aviation, and is there a move to discourage general aviation?

Mr. HUERTA. There is not a move to discourage general aviation. It represents a very significant element, as you point out, of contribution to the economy. In terms of operations in the system overall, I think it reflects the majority of aviation operations that exist in the national airspace system.

What the President's proposal attempts to do is recognize that over time, the general fund contribution to the operation of the FAA has gradually crept up. What we are looking to do is find ways to assign more of those costs to the users of the system. We recognize this is an important contribution and we are trying to do it as equitably as we possibly can.

HIGH SPEED RAIL

Mr. CARTER. Well, we see a trend of having a concept of transportation in this administration, and in order to push that concept, we are trying to come up with things, and we are seeing the President out on the stump today talking about issues to push people over into rail and so forth.

I am from Texas, 110 miles an hour, we drive 110 miles an hour. I am all for a 225 mile an hour train, but I am not for a 110 mile an hour train, especially when it is only for like 40 miles of a 200 mile stretch. So it may fit D.C., it may fit Chicago, it may fit New York, it may fit the East Coast. I would argue it does not fit the Midwest, I would argue—at least the central part of the country, it certainly does not fit Texas. And I do not want us to start discouraging one transportation means which is being effectively used in our state because other states want to encourage pushing resources over into rail.

I am not anti rail. My granddaddy was an engineer on the railroad. But for effectiveness in my state, general aviation is very important to us. And so I wanted to raise that issue, because I certainly would not want to see us discouraging general aviation. Thank you, Mr. Chairman.

Mr. LATHAM. Thank you, Mr. Carter. Mr. Pastor.

H.R. 7

Mr. PASTOR. Thank you, Mr. Chairman, and good morning gentlemen. Recently the T&I Committee passed H.R. 7 and it proposes to eliminate the bus state of good repair funding for multimodal operators. Those are agencies that deal with both bus service and the transit service. And as you know, the Valley of the Sun, Valley Metro, does both. So Mr. Rogoff, by elimination of this program what does it do nationally and what does it do to us particularly in the Valley of the Sun?

Mr. ROGOFF. Well, Mr. Pastor, there were four items pertaining to transit that were in the President's statement of Administration policy on H.R. 7 in which we issued our veto threat and this was one of them.

Frankly, by FTA's own numbers, two-thirds of the bus trips taken in America are provided by transit agencies that provide both bus and rail. And to take the bus funds in the bill and direct them solely to those agencies that provide only one-third of the bus trips, we just see as deeply wrongheaded. It is sort of like sending the subsidies to where the passengers are not.

We feel strongly that obviously if we are going to have a bus program of any size, all bus operators should participate in it and especially those bus operators that are performing the majority of trips, like Valley Metro in Phoenix.

202 SOUTHWEST LOOP

Mr. PASTOR. Thank you. Mr. Mendez, as you know, we are dealing with the Southwest loop of the 202. And it seems like there is concurrence on the north and south alignment, both by the city of Phoenix, Arizona Department of Transportation, and MAG, which

is the regional planning council. And their north-south alignment is 61st Avenue; they have agreed that that is the best place.

But the Federal Highway Administration has been hesitant to give its blessing or to jump aboard on it. And the question I have is what are the concerns that the agency has and how soon do you think those concerns will be met so that we can go forward with the procedure to finally construct the 202 in Southwest Valley?

Mr. MENDEZ. Well, Congressman, the big issue there is, to work on some of the 4F properties to ensure that we can find a way to mitigate against that. Now one thing that we have been working on very closely with Arizona DOT, with the regional planning council, MAG, and the city of Phoenix, is to approach the State Historic Preservation Office and look for a way to reevaluate the historic properties.

And, in fact, late yesterday afternoon I spoke with ADOT Director John Halikowski about the issue and we are working together to approach the SHPO and see what kind of results we can get. It really comes down to a matter of the historic property being in the alignment. And so we want to find a way to move it forward and mitigate at the same time.

Mr. PASTOR. It is my understanding that the properties have not been declared historic, that they have the potential to becoming historic, but no one seems to have an interest in making them historic.

If that is a situation that no one has come forth in the last 10 years to make them historic, why is that problem persistent and why don't we agreed that the probability of them becoming historic is minimal and let us go forward and begin the citing on that 61st Avenue?

Mr. MENDEZ. Right. It's my understanding that there are certain criteria within the law that identify what could be historic property. This property we are talking about meets, I believe, most of those criteria, if not all of the criteria——

Mr. PASTOR. But in the last 10 years no one has stepped forward to say we want to protect it or claim it is historic.

Mr. MENDEZ. Right. But again, moving our way through the requirements of the 4f section of the law, we have worked collaboratively with everyone at the table on that. It is not yet designated. It is a possibility that it could be designated. So now what we are trying to do is reevaluate what we have done to date and try and back off the limits so we can—if we need to mitigate we will mitigate—and move forward.

Mr. PASTOR. I guess my question is, there is always a possibility, but you also have to decide what is the probability. And it seems that everyone concerned says that the probability is very, very minimal. There is always a possibility, but the probability is minimal. So why don't we proceed forward, so that we can continue the project and move it forward? So does probability deal at all in your determination?

Mr. MENDEZ. Well, we will continue to work on the issue and try and get through the 61st alignment.

Mr. PASTOR. I thank you for it.

Mr. MENDEZ. Thank you.

Mr. LATHAM. Thank you, gentlemen. Mr. Diaz-Balart.

TRANSIT FORMULA GRANTS

Mr. DIAZ-BALART. Thank you very much, Mr. Chairman. I have a number of questions. First actually before questions, really a comment to Administrator Rogoff. You obviously are very familiar with the issue of Dade County when the FTA suspended the county's transit formula grants, for a pretty good reason I may add.

So I know you have spoken several times. I mean, I have spoken to you and your staff. But I really just want to thank you for dealing with this issue. I know that you were meeting with the mayor, with our new mayor, or you are going to?

Mr. ROGOFF. I actually spoke on the phone with Mayor Jimenez just yesterday just to update him on our most recent audits. We have got a lot of work we both need to collectively do, but we are making sure that the public is still served through the process.

Mr. DIAZ-BALART. Well, I just want to thank you for that and I encourage you to continue to, as you have, to work with our new county leadership and also just to let you know that I support the efforts of making sure that the taxpayer and the transit rider is well served. And again, sir, I look forward—you know, use me as an ally.

Mr. ROGOFF. Absolutely.

Mr. DIAZ-BALART. Consider me an ally on this issue, if you would.

Mr. ROGOFF. And we believe the mayor is committed to it as well. There is just——

Mr. DIAZ-BALART. Yes.

Mr. ROGOFF [continuing]. A good bit of work that needs to be done.

NEXTGEN EQUIPTAGE

Mr. DIAZ-BALART. Absolutely. I think that is probably an understatement.

A few other issues, Mr. Chairman, that I have. The recently enacted FAA reauthorization bill authorizes the secretary to establish a Federal loan guarantee program to incentivize NextGen equipage. That is an issue that has been central in all of the FAA's and DOT's NextGen testimonies for now more than a year.

So when should the aviation community, specifically the general aviation community, expect implementing guidance and how do you envision that new program working?

Mr. HUERTA. Thank you very much.

Mr. DIAZ-BALART. Mr. Huerta. Thank you, sir.

Mr. HUERTA. Thank you very much. Yes, the FAA bill does incorporate language that calls on us to develop a credit guarantee program to facilitate equipage. This, combined with efforts that the agency is focusing on with respect to operational incentives are very important I think because there are two parts to the delivery of NextGen: the infrastructure that the FAA delivers and then what the industry needs to do to be able to take advantage of the capabilities. This has been a central issue.

We were quite pleased to see that language. We are working within our finance, operations, and NextGen organizations in the FAA to frame out how best to respond. Then we want to sit down

with industry. This is what the legislation envisions as the partnership approach: working with private-sector funders and then ensuring there is a link between delivery of capabilities and the users of the system equipping.

We would envision that it looks at the whole spectrum of users of the system: air carriers, business aviation, and general aviation. Those are details we have to finalize, but we look forward to working with the industry.

Mr. DIAZ-BALART. Any idea of when you—are thinking of the timelines for this?

Mr. HUERTA. I do not have a timeline yet. We are still framing out what the steps are, but we can report back to you with a timeline.

[The information follows:]

LOAN GUARANTEE PROGRAM

The FAA is pleased with the authority in the recently enacted FAA Reauthorization Bill that allows the agency to establish an avionics incentive program to help commercial and general aviation (GA) aircraft equip with NextGen avionics.

We are currently talking to our stakeholders to seek their input on the loan guarantee program. We hope to design a program that meets their needs. One goal for an equipage program would be to encourage deployment of NextGen-capable aircraft in the National Airspace System sooner than would have occurred otherwise.

UNLEADED AVIATION FUEL

Mr. DIAZ-BALART. Great. That would be great.

And actually, Administrator, a word if I may. Also last year, the appropriations bill included $2 million for the research on initiatives to transition to unleaded aviation fuel. And I think the administration also, recommended $2 million this year I believe. There is obviously great interest in that.

And I understand that you are working with stakeholders on this issue, number one. Also the Aviation Rulemaking Committee recently made recommendations to the FAA. When do you think the FAA will announce these recommendations and what is the process for implementation?

Mr. HUERTA. With respect to fuel?

Mr. DIAZ-BALART. Yes. Yeah, the transition to——

Mr. HUERTA. On transition to unleaded av gas, I'll need to get back to you with a specific response, but this is a significant issue. As you know, av gas is, for general aviation, the last leaded fuel out there, and there is a lot of concern in the general aviation community about its continued availability.

Mr. DIAZ-BALART. Thank you, sir.

Mr. HUERTA. But I will get back to you with that.

[The information follows:]

UNLEADED AVIATION GASOLINE (AVGAS)

The FAA is taking a leadership role in the General Aviation (GA) industry's efforts to transition to an unleaded aviation gasoline. Recent initiatives such as the Unleaded Avgas Transition Aviation Rulemaking Committee (UAT ARC), in combination with the continuing research and development support provided by the FAA William J. Hughes Technical Center have made significant contributions to address the technical challenges of introducing an unleaded aviation gasoline. Our target is to work with industry to have a replacement fuel for leaded aviation gasoline available by 2018 that is useable by most GA aircraft. Once an unleaded fuel is available, each aircraft and engine combination will need to be evaluated and ap-

proved to use the new fuel. The timeline for the GA community's transition to an unleaded fuel is uncertain and is largely dependent on market forces, the continuing availability and cost of leaded fuel versus an unleaded alternative, and the future regulatory environment that may restrict lead emissions from aircraft sources. The FAA is committed to working with industry to assure a viable path towards an unleaded fuel for the GA fleet.

Mr. DIAZ-BALART. There are obviously economic issues and market challenges and transition fleets and everything else. So if you could just get back to us on that it would be great.

Mr. HUERTA. Absolutely.

Mr. DIAZ-BALART. Mr. Chairman, if I may, just a couple of more questions, if that is all right with you?

Mr. LATHAM. In 25 seconds.

FRA CRASH AVOIDANCE SYSTEM

Mr. DIAZ-BALART. In 25 seconds. All right.

The issue of—and this is for Mr. Szabo—the crash avoidance system, which obviously has been controversial at best and we know the issues. So to make it quick, with all of the issues out there, does the FRA believe they have enough resources and personnel dedicated to the implementation of the PTC? And what is a timetable for issuing the final rules because obviously there is a lot of uncertainty out there?

Mr. SZABO. Well, the final rule, of course, is out there published already. Based on the President's Executive Order we are doing a revisit on that for some tweaks. A final rule removing the dual test, which the industry was so concerned about, will, in fact, be published by June of this year. It should save the industry somewhere between half a billion to a billion dollars.

And then the remaining miscellaneous issues that the industry have been concerned about will have the Notice of Proposed Rulemaking published by August. And of course, there is a report that is due to Congress by the end of this year. We will have that to you several months early. It is in administrative clearance right now.

Mr. DIAZ-BALART. Thank you, sir. Thank you, Chairman.

Mr. LATHAM. Thank you. Mr. Price.

CAPITAL INVESTMENT GRANTS

Mr. PRICE. Thank you, Mr. Chairman. We appreciate all of you gentlemen being here today and the good work you do in your agencies. In the limited time I have I want to focus on Administrator Rogoff, if I might, and on the question of the criteria governing capital investment grants, the rules that are underway and the rules that might be contemplated in the future.

We did appreciate, Administrator, your visit to the Triangle area of North Carolina a few weeks ago; glad to be able to show you firsthand the groundwork we are laying for a strong regional bus and transit system and also, hopefully, we were able to demonstrate the critical importance of regional rail to assuring our quality of life as we grow.

As you well know, our regional transit agency was hamstrung by DOT's midstream change in cost effectiveness standards in the last administration, and more generally by a New Starts system that

seem to accommodate expansion projects and to meet the needs of our largest metropolitan areas at the expense of areas like ours.

So I applaud the secretary's efforts to reform the evaluation criteria and the streamline of the process. Under the last administration's rule, cost effectiveness counted for about 80 percent of the project's worth. Now, of course, that is still a criteria, but the administration has begun to evaluate projects in a more comprehensive manner, including land use, increased mobility, economic development, and so forth.

Just this January, you published a rule that would significantly revise the criteria to incorporate social equity and environmental considerations, and would aim to speed up the process, speed up FTA review by altering the process required for projects to obtain a full funding grant agreement.

So I wonder if you could comment on the status of this rule. I know your comments are just now coming in, but what kind of practical difference do you anticipate this will make? When do you expect it to be finalized?

And then just one further matter. I wonder if you could comment on efforts to update the New Starts program to reach smaller urban communities, communities that do need Federal support. I have always thought it made sense to allow more flexibility in the amount of Federal support, the Federal share. And you have said the FTA would not take a one-size-fits-all approach.

The Federal share is down; is 50 percent now down from 60 percent. In some cases a share of more like 25 or 30 percent would be significant enough to get a project off of the ground. So I wonder what your thoughts would be on that matter.

Mr. ROGOFF. Well, let me address them one at a time. First, let me say I, too, really enjoyed the visit and I really commend the folks in the Triangle for approaching this on a regional basis. It makes sure that we are not going to balkanize systems and we are not going to have competing and duplicative service. No one has the money for that these days and there is a lot of need down there. As you know, Triangle Transit has had some stutter steps in terms of moving off of the ground and deploying a valuable system.

We have seen great success in Durham, where voters have already voted to tax themselves to help match Federal dollars. We are looking forward to seeing what Wade County and Orange County are likely to do in the future. But there seems to be a lot of enthusiasm and we want to partner with them.

On the rulemaking, the comment period for the Notice of Proposed Rulemaking is still open, but it will close shortly. And the Secretary and I are determined to get a final rule out by this summer. The proposed rule has been very widely well-received and as such, we do not expect to have a very difficult time dealing with the comments we have received. It really, as you said, takes a broader view in terms of what are the benefits these projects provide and get us away from that very narrow criteria that was imposed by our predecessors in 2005, which, frankly, it was super statutory. They imposed criteria even though they had no basis in the law. We are really, in many respects, just going back to the law as it exists.

In terms of streamlining, yes, our rulemaking will also enable us to streamline the process. The real benefits of streamlining our process will come with reauthorization. I will say with all of the disagreements that we are having with elements of the House bill especially, and all of the differences between the House and the Senate and the Executive Branch over reauthorization, the approach on how we need to streamline the New Starts projects is an area where we have remarkable unanimity.

We think the language in the Senate bill is actually very workable and the House bill language on this particular topic is workable, too. Obviously there are other elements of the House bill that we are troubled by. So in terms of share, in terms of raising the available Federal share for smaller projects, that is just challenging for managing the pipeline of money.

I would love to have the same 80/20 split as we have in highways. However, I do not have the resources to pay for that. So that is really a——

Mr. PRICE. Excuse me, Mr. Chairman. Let me just clarify. What I am talking about is lowering the share as a way of letting the money go further and——

Mr. ROGOFF. Lowering the Federal share?

Mr. PRICE. Yes.

Mr. ROGOFF. Well, I think as you said, we have effectively done that because we are now, you know, not only at 50 percent, but some projects are at 40, 30, and 20 percent based on what they can put up and what we can put up.

Mr. LATHAM. Thank you, gentlemen. Mr. Womack.

HIGHWAY INFRASTRUCTURE

Mr. WOMACK. Thank you, Mr. Chairman. And before I ask a couple of questions I would like to just associate myself with the remarks of my friend Judge Carter down here on contract towers. That is, associate myself with his remarks, all but that driving 110 miles an hour thing. We have too many hills; a little dangerous.

This is for Administrator Mendez. We all know that road construction infrastructure projects are a source of great jobs. As a former mayor, I look at it not necessarily in the short term on jobs, but the long term on jobs and the return on investment we get from a lot of this infrastructure. And with that said, you know, I spoke last year about the I–49 project and I will use it as an example because it is in my district, and we do appreciate your support on the I–49 corridor.

But the large question is how do we keep these projects that we have already committed to funded through completion. When it is certain that they are going to provide us a long-term return on investment through massive economic development that has already been proven, in my district, for example? How do we do that and ensure that the heartland has this capacity to continue to build?

Mr. MENDEZ. Yes, sir. I think you hit really on the crux of the matter here. We all know, I believe, that when you invest in our infrastructure it is good for the Nation. It is good for economic growth, particularly in today's economic conditions, and trying to get people back to work. It certainly does that. We know that for a fact.

I think what we need to focus on, as you mentioned, is the long term. We have these major projects that are really important, not only to the state, but to the Nation. The processes we have in place when there is Federal participation—we do have a process where on the major projects we do require a financial plan to be submitted before we actually participate in those big projects. We then continue to monitor those projects on a monthly basis.

We have an office in each and every state, but we also have an office here at headquarters that monitors the progress on major projects. And that's our focus, to ensure that these projects continue.

If there are hiccups we try and address them in concert with the state DOT. So it is really, once they are up and running, it is a matter of, how do we better manage that process? And we can only do that in concert with the state DOTs.

Mr. WOMACK. The greater Northwest Arkansas area, I think can prove to be a model for how a region is putting its skin in the game. In fact, there is a proposal coming up in November to levy a sales tax in the state for infrastructure improvements. Is it possible or is it even possible or practical for the grant process to help reward areas that are willing to tax themselves, levy themselves, so as to have a lot of skin in the game and further leverage these very precious Federal resources?

Mr. MENDEZ. Right. And you hit on another key point about regions coming together as was discussed here just a while ago. I have been there. I have been at the front line at a state DOT and when you bring all of the parties together, you can really create great plans and actually move them along.

I think what we have done with some of our grant programs, we look at, for example, the TIGER grant program. If you come in with an application that shows that you are leveraging any funding you might get or receive from Federal aid, I think that gives you a better positioning in the award situation. So we do look at that in some of the grant programs.

Mr. WOMACK. Then I am going to pivot to the process, particularly the environmental impact statement process, and I will give you an example. In my district, Northwest Arkansas Regional Airport received money for an airport access road back in the late 1990s and they have waited 12 years to finish this entire environmental review process with no end in sight, no certainty to be seen.

So I would ask, with this example of mine, how can we further refine the environmental review process to allow these projects to move forward? Or should we just accept that they are doomed to some kind of a 10- or 15–year process?

Mr. MENDEZ. No, sir, I cannot accept that. I think there is a lot of room for improvement within FHWA. I believe you missed my opening remarks.

Mr. WOMACK. I did, sir.

Mr. MENDEZ. We do have an innovation initiative underway within FHWA to look at some of these processes and improve them. I believe there is a lot of flexibility within the current laws that we have not explored. On the environmental process, a project like this under that innovation initiative, we have SWAT teams. We

call it Enhanced Technical Assistance, where we would send in a SWAT team to do whatever it takes to resolve those issues.

Mr. WOMACK. Thank the gentleman. I yield back.

HIGH SPEED RAIL

Mr. LATHAM. Thank the gentleman. Mr. Szabo, the high-speed rail project from Los Angeles to San Francisco is currently about $100 billion in costs and it is also $87 billion short of funds, and that is even after California committed $10 billion to the project and the Federal Government committed $3 billion to it. I think it is notable that there are no private investors who have decided to commit any funds to it.

I know you are full steam ahead on high-speed rail, so let us focus on the one line that is actually being planned today, from Fresno to Bakersfield. The line is estimated cost about $6 billion, but the 6 billion does not include the cost of electrification or any rolling stock on it. Do you know how much those will cost?

Mr. SZABO. Well, actually what you are quoting from is the earlier version of the business plan, which is in the process of being revised right now, and so there will be new numbers with——

Mr. LATHAM. Is there a new plan?

Mr. SZABO. Yes. Oh, yes. In fact——

Mr. LATHAM. Is it published?

Mr. SZABO. It is due to be released next week by the California High-Speed Rail Authority. Through some value engineering, they believe that the initial construction costs will be less and so many of these concerns that have been raised will be addressed.

Mr. LATHAM. So where do we get the funds for the hundred billion?

Mr. SZABO. It is going to take a public-private partnership. And there is, in fact—there continues to be strong private interest. So the key is to make sure that between the money that the Federal Government commits, that the state commits, and with the operating plan that they have put forward, that there is sufficient meat there to entice the private sector to come forward with their investment.

But their interest continues to be strong. We continue to hear from the private sector and so does California High-Speed Rail.

Mr. LATHAM. Do they have any authority to use the Federal funds for any activities other than the high-speed rail activities in the grant agreement?

Mr. SZABO. No, the funds that we have granted, you know, or have awarded through our grant process are specific for that purpose of which they applied for. So there is not flexibility either under the law or the grant process to shift them to a different purpose or to another use.

Mr. LATHAM. Did you have any idea of what the $3 billion would do as far as existing lines, as far as repair and improvements?

Mr. SZABO. You mean elsewhere in the system? Well, again, it would depend on those proposals. I mean, if you are talking about the Northeast corridor, of course, we have put $3 billion in there over the last couple of years and there continues to be needs. The important thing is for the good planning to be done in order to help

define the projects and put into place the engineering and NEPA work to make sure we can go forward.

That effort is being done now, led by the Northeast Corridor Commission. And, in fact, the FRA is leading the environmental planning. We initiated that effort a couple of months ahead of schedule to start taking a look at the next generation for the improvements on the Northeast corridor.

AIRPORT REVENUE DIVERSION

Mr. LATHAM. Okay. Mr. Huerta, are you aware of any patterns of airport revenue diversions at any locations across the country? Which ones are you looking at, and what are you doing?

Mr. HUERTA. Airport revenue diversion is something that we take pretty seriously, and we have a regular and ongoing audit process where we work with our airport's district offices to try to identify this. We do have a couple of specific requests that have come in and have been brought to our attention. Most recently, there is a request that has come in through the Office of the Inspector General hotline relating to Los Angeles World Airports, and potential diversion relating to cost associated with the policing at the airport.

We have been working with the Office of the Inspector General and with the local authorities there and they are responding to questions. We have requested the OIG give us some additional time to continue to work this, and we owe them a report at the end of May.

Mr. LATHAM. Did you have any idea of how much has been diverted in Los Angeles?

Mr. HUERTA. I can get back to you with details on that.

Mr. LATHAM. And what are the issues with full-time rather than part-time?

Mr. HUERTA. Correct. It relates to, are they actually carrying out airport-related functions? That is exactly the subject of our investigation right now, to try to determine what exactly is going on there.

[The information follows:]

AIRPORT REVENUE DIVERSION

The investigation into Los Angeles World Airports (LAWA) is ongoing.

- In August 2011, the US DOT Office of the Inspector General (OIG) became aware of allegations that LAWA may have misappropriated airport revenues by diverting them from airport security purposes to security services unrelated to the airport.
- The OIG informed FAA of the allegations in October 2011. FAA subsequently contacted LAWA. LAWA was advised of the allegations and asked to respond accordingly. Information continues to be exchanged between LAWA and the FAA. As of February 2012, LAWA disagreed with the allegations.
- Due to the complexity of the cost allocations and accounting involved, there has been no final determination as to whether funds were actually diverted and misappropriated.
- FAA expects to complete its investigation by May 31, 2012. FAA plans to share its findings with the Committee at that time.

Mr. LATHAM. Okay. I do not have enough time to ask another question. So Mr. Olver, I will yield to you.

Mr. OLVER. I will be happy to use your time.

Mr. LATHAM. The gentleman's time is expired.

SURFACE REAUTHORIZATION

Mr. OLVER. Mr. Huerta, you have just managed to get recently a long-term authorization, so you have got your marching orders for some period of time. We are now within 10 days of requiring a new surface authorization or a string of extensions.

And my own experience suggests that if we do a short-term extension—and it was very depressing to hear my chairman say, we are headed toward a 3–month extension, because I think that what happens is that we will get to 10 days from the end of June and have not a surface transportation program ready to go even then. And there will be the same argument of whether the extension or something else.

If Congress does not take action, the endpoint of inaction is that all of the surface transportation agencies, those that are involved in the movement of people and freight, will end up facing some sort of shutdown scenarios of planning and constructions and so on. That is unthinkable in a sense.

But I would like to have a sense from the three of you, who are in the surface transportation, what impacts a series of short-term extensions would have upon the programs that you deal with. And in particular, we are right into the beginning of the construction season this year, when things are being sent out to bid and construction would be starting and so forth. What are the impacts that are particularly going to affect us for this year?

So if you can put your thinking cap and not more than a minute or so on each of you to summarize what you think the problems are with short-term extensions.

Mr. ROGOFF. There are several problems with short-term extensions, the biggest one being the uncertainty it sows on the part of our grantees and their inability to go to contract on projects of any significant size. The upshot of that is it depresses potential employment that we are going to generate from those contracts. And importantly, it also, if you will, dumbs down the type of work that they can and should be doing. So rather than doing major important capital improvements to deal with their state of good repair, they are going to be doing a lot smaller purchases, not knowing whether they can execute a contract of any size.

That means that buses are not going to be bought, bridges are not going to be replaced, and it is why, frankly, we feel strongly that the House rather than take up another short-term extension, which, as you say, goes right into the construction season and really knocks right through it, that the House should take up and pass the Senate bill. Because it is paid for, it is bipartisan, it is balanced, and will provide the certainty our users need.

Mr. MENDEZ. Well, Mr. Olver, I think in the highway arena it is very similar to transit. If you look at the implications from a long-term planning perspective, if you are a state DOT, for example, it really puts a big damper on your ability to plan long term.

I think for those states that are up in the northern parts of the country, construction season is pretty much around the corner here, and that is going to have a major impact. So, there are some pretty serious implications going short term to short term.

Mr. SZABO. Yeah, there is no question that the uncertainty brings significant problems. In our case, it would affect public safety. It would, you know, affect our ability to implement things like positive train control in a timely manner, to assist the commuter rail expansion that is going on and the work that we have to do with those folks, efforts like conductor certification.

And then, of course, it also would put the $10 billion of grants that have already been awarded at some element of risk because, you know, we have to provide strong oversight to our grantees and make sure that public funds are being spent appropriately. And it is critical that we have the resources that we need for that oversight.

Mr. OLVER. Okay, so we are talking about what happens with the ninth extension pending here. We have already had eight. And if we end up doing some of the ones with aviation we are as short as a couple of weeks. You know, it became really silly. I will have another chance probably. Thank you.

Mr. LATHAM. We will see. Mr. Diaz-Balart, you did not have a question. Mr. Womack.

HIGH SPEED RAIL

Mr. WOMACK. Thank you. I have just got one more question. And not to kick the high-speed rail issue much further, but it is hard to convince people in my area about the merits of high-speed rail. I understand that my area is not like some of the other areas, such as the Northeast corridor, even in Florida where they have turned back money on high-speed rail. So it is hard for me to go through my district and tell people the advantages of it.

And as it concerns Amtrak, if you want to catch that as it goes through Arkansas, you have got to get up between 1 and 3 a.m. It is just a matter of population density. I get all of that.

Mr. SZABO. Right.

Mr. WOMACK. So is this rail concept feasible in the middle of our country where there is low population density? And if not, how can we, at a time of crushing debt and deficits that our country continues to rack up, divert money away from known contributing pieces of our vital economic development initiatives, like road and bridge construction, to projects like high speed rail? Help me address that issue with my constituency.

Mr. SZABO. Sure. I think it comes back to a point I made earlier about congestion already costing our Nation $130 billion a year and that cost continuing to go up. You compound that with the fact that our Nation is going to see about a 33 percent growth in population over the next 35 years.

And then it is important to note that our program is targeted to give states this option as a tool to meet their mobility needs. Our existing investments have been primarily focused in 5 mega regions that hold 65 percent of the Nation's population. The population and congestion in these areas are significant: the Midwest, Pacific Northwest, California, the Northeast corridor, and the Southeast. It is not a matter of saying, Arkansas, you have to move forward with passenger rail.

But it gives your state DOT another tool, another option, that if it meets the needs of your state, provides mobility to your citizens.

Of course, people today are looking for choices, transportation choices, so they are not trapped into paying escalating fuel costs. It is just a matter of bringing some balance to the transportation system, providing people choices, and giving options to the DOTs.

Mr. WOMACK. Well, I will end with this. It is not a question, it is just a statement. The fact is that congestion is a quality of life issue, and the more congestion you have, the more frustrating it is for people.

And given the fact that if we put a little more money into some of the projects, such as those I articulated earlier in my series of questions, that it is possible that the future population growth of this country may indeed not be in some of the more metropolitan areas because it does become a quality of life issue.

And indeed, maybe a good portion of this population growth will happen in areas of our country that are primed and ready for that type of population growth, but for the need to improve their ability to move traffic under more traditional means.

So I will just kind of leave that as a thought because I have seen that in my district, and I think you will see more of it. And with that, I yield back.

Mr. LATHAM. I thank the gentleman.

Mr. Pastor.

Mr. PASTOR. Mr. Chairman, thank you very much, and I still have faith in bipartisan reauthorization. I have not given up on my colleague, Steve LaTourette. So, I hope that——

Mr. LATHAM. We are all eternal optimists. That would be wonderful.

GROUND-BASED AUGMENTATION TECHNOLOGY

Mr. PASTOR. It would be a great thing.

Mr. Huerta, congratulations on your appointment, but let me talk a bit about the ground-based augmentation system technology. As I understand it, you are evaluating it to see how it enhances and improves the air traffic control capabilities. Now, where are we on the evaluation? And then the question is, if it is going well, are you going to expand it to what airports?

Mr. HUERTA. We are still evaluating what its performance is, and I think the principal question and concern that we had is the potential interference issues we ran into during some of our early testing relating to GPS jammers at adjacent facilities. We have successfully been able to shield it with that, and I think that it does provide a very good augmentation using ground-based systems of aircraft position, which greatly enhances safety and performance.

As the evaluation continues, we do have a further rollout plan that we will be developing and, at that time, I would be happy to share it with you.

Mr. PASTOR. Do you have a timeline more or less?

Mr. HUERTA. I do not.

Mr. PASTOR. You do not. Okay. I know that a lot of the lamps you are replacing in the PAPI system, you are bringing in the LEED lamps, and, obviously, that is saving a lot in terms of energy use.

Mr. HUERTA. Correct.

Mr. PASTOR. Where are we on that in the replacement throughout the system?

Mr. HUERTA. I will need to get a current report on where we are. I had a briefing on it in a recent visit to our aeronautical center, but I do not have a good feel for exactly where it is nationwide.

Mr. PASTOR. Well, if you could let me know——

Mr. HUERTA. I will.

[The information follows:]

GROUND BASED AUGMENTATION SYSTEM (GBAS)

There are two areas of FAA GBAS technical evaluation, Category I (CAT I) and Category III (CAT III).

GBAS CAT I was given a System Design Approval (SDA) in September 2009 by the FAA as a non-Federal system. Excessive Radio Frequency Interference (RFI) on the Global Positioning System (GPS) was identified at the first installation location, Newark, New Jersey. The preliminary finding is that it is possible to mitigate GPS interference at GBAS ground installations. The work is in the final stages and the FAA expects to issue a revised GBAS SDA by mid-July 2012, which would allow FAA to approve GBAS for operational use by August 2012. GBAS is currently not scheduled for CAT I deployment by the FAA. However, several domestic airports have pursued non-federal GBAS installations based on airline requests.

On GBAS CAT III, the primary focus of FAA efforts is validating the International Civil Aviation Organization (ICAO) Standards And Recommended Practices (SARPS). The FAA GBAS program is leveraging the CAT I system, and identifying how that system either meets or can be modified to meet CAT III requirements. Several contracts are in place for this work, which the FAA and it is expected to be completed in June 2014. A non-federal approval of that system is currently expected to take two years, making GBAS CAT III available in July 2016. While engineering and standards work on GBAS CAT III continues, no investment decisions have been made on deployment and implementation.

Mr. PASTOR [continuing]. Where we are at and where we are going, I would greatly appreciate it. I think it saves energy at many of these airports.

Mr. HUERTA. Oh, yes, it has great cost-saving potential. How we roll that out and how it is managed is something that is very significant benefit to us.

[The information follows:]

PRECISION APPROACH PATH INDICATOR (PAPI) LIGHTING

The program to replace the Visual Approach Slope Indicator (VASI) with the Precision Approach Path Indicator (PAPI) lights in the National Airspace System (NAS) is progressing. There are 793 federally-owned commissioned VASIs remaining in the NAS. In fiscal year 2012, six replacement projects have been completed to date. Twenty-seven replacement projects were completed in fiscal year 2011. On average, the FAA completes 25 of these projects per year. All six runway ends (08, 26, 07L, 25R, 07R, and 25L) at Phoenix Sky Harbor International Airport have a commissioned PAPI. All VASIs there have been replaced.

A contract was awarded in August 2010 to New Bedford Panoramex of Claremont, CA for development on the Light Emitting Diode (LED)-based PAPI. A Critical Design Review was conducted successfully in August 2011, and we are planning on conducting the Design Qualification Testing starting in May 2012. The current schedule calls for an In-Service Decision (ISD) in July 2013, with production equipment available for installation in August 2013. The ISD authorizes deployment of the equipment into the NAS. After demonstration of initial operational capability at the key test site.

The waterfall schedule for LED PAPI sites will be developed in August 2013 after the ISD is reached.

Mr. PASTOR. I thought I heard in your statement, Airport Improvement Grant, that in the airport improvement grants you were concentrating on the smaller airports.

Mr. HUERTA. That is correct.

Mr. PASTOR. And the question is, what happens to those of us with bigger airports? Because we also have needs, as you well know, because we have most of the traffic.

Mr. HUERTA. Sure. The President's proposal has two parts. It is a reduction in the base AIP program and focuses on the smaller airports. But central to it, is increasing the PFC cap authority for the larger airports so that they would be able to generate local revenues through passenger facility charges that would support their capital program. You need both pieces of that to make it work.

I think if you talk to virtually all of the large airports in the country, they would love to have that flexibility. They feel it gives them a more predictable and local source of revenue that enables them to support their capital improvements. The important point is you need both components. In order to reduce the AIP allocation and concentrate it towards smaller airports, you have to have the increase in the PFC to go with it.

Mr. PASTOR. Well, I will check with Sky Harbor to see where they are on this and I will get back to you.

Mr. HUERTA. Certainly.

COMMUTER TRAIN

Mr. PASTOR. Mr. Szabo, in the past, you have been working with ADOT and some of our efforts to connect commuter train Pima County and Maricopa County, which is Phoenix-Tucson metro areas. And I know that we have had a number of studies and you have been working with ADOT, the Arizona Department of Transportation. Where are we and how is that going?

Mr. SZABO. I would have to get back to you on that, but we can set up some time to talk about it. I know staff was just out in the Southwest here last week working with the leaders out there on their planning efforts and we can set up a briefing for you.

ARIZONA INTERSTATE II

Mr. PASTOR. Mr. Mendez, how about I–11? How are we doing there?

Mr. MENDEZ. Well, as you are aware, that has been an ongoing issue and——

Mr. PASTOR. That is why I asked the question. [Laughter.]

Mr. MENDEZ. The Secretary has been very clear. We are prepared to work with all the states to make that happen in Nevada and Arizona. Other than having discussions about it, there is no formal proposal on the table. So, as soon as the states approach us with some formality, we are ready to work with you and make that happen.

Mr. PASTOR. Thank you. I yield back, Mr. Chairman.

HIGH SPEED RAIL

Mr. LATHAM. I thank the gentleman.

Kind of following up with Mr. Womack, Mr. Szabo, what is the definition of high-speed rail for the purpose of the Committee here? What is high-speed?

Mr. SZABO. Under our program, it is a three-tiered program, three components. There is core express service, which is speeds of

150 to 220 miles per hour or higher; and then there is regional service, which operates from 90 to 125 miles per hour; and then you have your traditional service, what we call emerging service for emerging markets, which is 79 miles per hour. Under Federal statute, Congress defined it as those speeds over 110 miles per hour, but our program is three-tiered, essentially based on what they do in both Europe and Asia. It is based on the international experience.

Mr. LATHAM. So why last year, the week before the elections, did the Secretary come out and make a $230 million grant for a "high-speed rail," yet the average speed was 53 miles an hour?

Mr. SZABO. Which particular project was it?

Mr. LATHAM. Chicago to Iowa City.

Mr. SZABO. Chicago to Iowa City. I mean——

Mr. LATHAM. Fifty-three miles an hour.

Mr. SZABO. Yes, the award was based under the High-Speed and Intercity Passenger Rail Program that we have. So that, at this point, the initial operating speed——

Mr. LATHAM. So, does that fit the definition?

Mr. SZABO. That particular one would be regional. So, it is in the second tier of our program, and I think the speed that you are coming up with is talking about initial construction, not where it would be at full build-out.

Mr. LATHAM. That is what you said.

Mr. SZABO. Yes. So, that is not a full build-out. It is not a full build-out, Mr. Chairman.

Mr. LATHAM. I do not know. Those are your numbers. Okay. I do not want to leave anyone out here.

TRANSIT SAFETY

Mr. Rogoff, the budget proposes an increase in transit personnel by a whopping 117 full-time equivalents, 47 new for the base program, 45 for an unauthorized Office of Safety, 25 more for an unauthorized Rail Transit Safety Initiative, and that is a 22 percent increase. I do not know any other agency that is getting a 22 percent increase in FTEs. The budget states that the 47 new ones in the core program are currently being paid by stimulus funds, primarily to do environmental work.

Are those must-have employees, or I am sure you would like to have more employees, and how many actual positions are you funding with the 47 FTEs?

Mr. ROGOFF. Well, let me just say, you may recall, I touched on this briefly in my opening statement. We understand that this is not the best environment in which to come forward for more people. Frankly, it was not an easy sell given that environment to get it in the President's budget, but there is a reason that it is there, twofold.

One, on safety, this is a huge unmet need. As I said in my opening remarks, we have a very weak and ineffective oversight regime on safety, specifically in transit, that I do not think anyone of any political stripe wants to defend. We have some common sense measures that would not create a huge, new bureaucracy to try to address that. And that is where those positions come from.

As it relates to our core program, here again, it was not easy to get additional people in the President's budget, but the reason we were successful in making the case is when you look at the size of our program and how it has expanded and the size of our staffing and how it has not expanded. I do not want to get into comparisons with my other colleagues at the table, but we have hundreds of grantees that we have to deal with, some of whom are not very sophisticated and need a lot of hand-holding in order to put good money to work on transit dollars. We want to make sure that those dollars are spent according to all law and regulation. And when it comes to this, I have challenges where I do not have enough staff to send a staff person to every one of the triennial audits that we do with our agencies, and that is a real problem. I would love to have a chance, give me 10 minutes in your office, I will walk through with you what the most critical needs are. But both on safety and on our core mission, we really are short-staffed and the President's budget recognizes that.

Your question on positions, I am happy to provide that separately for the record.

[The information follows:]

FTA estimates the 47 FTE equates to approximately 69 positions. The out-year costs will be determined by a range of factors including government-wide pay raises, promotions, and within grade increases that are not known at this time.

Mr. LATHAM. Okay. Mr. Olver, I will give you chance here.

Mr. OLVER. Thank you. Thank you, Mr. Chairman. Let me just to follow that little piece for a moment.

You had mentioned in your opening statement that on this safety issue for transit, that the two positions on the Senate and then the House authorization proposals were both better than nothing.

Mr. ROGOFF. Indeed.

Mr. OLVER. But in one minute can you sort of give me what are the essential differences and what is the minimum of resources that you would need for that safety program, which was 70 new full-time employees, $45 million, or something like that in order to achieve either of them or each one of them?

Mr. ROGOFF. The core differences between the House and the Senate bill, sir, is the Senate bill importantly reverses a provision that has been in law since 1964 that prohibits my agency from issuing any safety regulations of any kind. And the House bill does not do that, but the House bill does call on us to certify the state agencies that do this. These state agencies are very underpowered and do not have the expertise or training they need to do this function. So, there is a core difference between the House and the Senate. We think the Senate bill is much more comprehensive, but, yes, the House bill does significantly expand our area in safety.

We right now are starting with a very small safety staffing component. We have situations right now where you have got three railroad tracks side by side, two of them are inspected by the FRA with a voluminous rulebook and have Federal inspectors looking at the facilities and the third track, whether it is in Denver or in Washington, D.C., as was happening with WMATA, is inspected largely by nobody. And a one-person state office is supposed to be looking at this question.

Mr. OLVER. But if you were to go in the direction that you have described of a "voluminous rulebook——"

Mr. ROGOFF. We do not want to go there.

Mr. OLVER [continuing]. It would be a serious problem.

Mr. ROGOFF. We would be playing right at—we do not want to. I mean, we have always said that we do not even want this initiative to be more than 1 percent of our budget and it does not need to be. We have some common sense safety proposals that are not a new bureaucracy. We do not want to create Mr. Szabo's rulebook for rail transit agencies. We really want to install a high-level safety management system approach. But we need to move on with it, and we need people to help us do that, and we need the authority in the law to help us do that, and the administration has formally asked for this in legislation back since 2009.

When you look at the comparison on how many passengers are in the regulated safe area, and then the many, many-fold more passengers that are in the unregulated area, it really does not make sense and it is not a status quo that people want to defend.

Mr. OLVER. Okay. Well, I think that is a very cogent description of what the situation is because you need some safety and some authority. If you have the authority, then you have to have some resources in order to exercise the authority.

Mr. ROGOFF. If I can get all the new resources, I would like to work with the Committee on how we can redirect some existing resources to really get on this.

Mr. OLVER. Okay. We have already been called on votes, is that correct?

Mr. LATHAM. Yes, we had a call.

SURFACE REAUTHORIZATION

Mr. OLVER. All right. Well, let me just finish. I want to make a bit of a statement that relates back to this idea of short extensions and so on.

The efficient movement of people and goods around this country by all of your modes and whatever else we do in transportation ends up really being something like 20 percent directly and indirectly, with the supply systems for all of those organizations, the manufacturing, the products that are involved, represents at least 20 percent of our total economy. I can really think of nothing that would be more effective at slowing down the economic growth, at slowing down the recovery from this enormous recession that we have lived through, more effective at keeping the unemployment rate up at a totally unacceptable level, than a series of simple, short extensions of the authorization legislation. It keeps the whole industry from managing to move on and plan and get their work done.

That is all I want to leave you with today. That is my belief in what is at stake here at the moment. Thank you very much for being here.

Mr. LATHAM. Thank you very much, Mr. Olver. I could not agree more that we need to get the reauthorization done.

Mr. OLVER. Well, thank you. We agree. We agree. [Laughter.]

Mr. LATHAM. We always agree with each other, on everything.

I just have one quick question here. In the reauthorization for FAA, the programs are significantly lower than the levels in your budget request and the President just signed and agreed with what the levels were, but then the request comes out to be considerably higher. How do you justify that? Are you going to be able to go by what the President just agreed to or I do not understand?

Mr. HUERTA. Well, I think that there are two dimensions to that. What the President's request reflects is what we think we need to maintain the system, to operate the system, as well as to——

Mr. LATHAM. He did not know that when he signed it?

Mr. HUERTA [continuing]. The transition to—let me finish.

Mr. LATHAM. I am sorry.

Mr. HUERTA. To manage the transition to NextGen. However, the timing of these two things, they crossed in the night, as you know, when the reauthorization was signed and the preparation of the budget request. What we need to do now is work together and come up with what is the appropriate resource we need to dedicate to FAA programs and the investments we need to make in the years ahead.

Mr. LATHAM. Yes, he agreed at the authorized levels, right?

Mr. HUERTA. As I said, the President's request reflects what we think we need to maintain the system——

Mr. LATHAM. It is different than——

Mr. HUERTA [continuing]. And to invest in the system going forward.

Mr. LATHAM. Right.

Mr. HUERTA. We all want to work together and come up with the right number.

Mr. LATHAM. That is good, I like that. [Laughter.]

I think with that, unless you have anything else, Mr. Olver, we thank the panel very, very much. We look forward to working with you very closely to continue your modes in the best possible way to fund them properly and within the budget constraints that we have.

So, with that, we will adjourn the hearing.

QUESTIONS FOR THE RECORD
FROM THE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT
FY 2013 BUDGET HEARING – 3/22/2012

Chairman Tom Latham

Federal Highway Administration

QUESTION 1: *Highway Trust Fund*
If, in the middle of FY13, there is not enough money in the Highway Trust Fund to fully reimburse states that are seeking reimbursement for ongoing projects and the high-construction season is still ahead of you, what actions will FHWA take, and how will those actions ensure equity and fairness to all states?

RESPONSE: Once it becomes apparent that a cash shortfall may occur in the near future, FHWA will begin communicating with the States to make sure they are fully aware of the status of the Highway Trust Fund and any actions FHWA anticipates taking.

Should a situation occur where FHWA cannot fully reimburse States, the agency may take some or all of the following actions:

- Move from daily to weekly reimbursements
- Align reimbursements with Trust Fund deposits (twice monthly)
- Make proportional payments to States based on available Trust Fund cash

These are some of the possible actions FHWA might take in the event of a cash shortfall. The specific actions would depend on the exact nature of the shortfall.

QUESTION 2: *Emergency Relief Program*
Each year, the authorizing committees provide only $100 million in ER funds. The rest – which totaled $1.7 billion last year – is provided by this subcommittee.

- Some so-called emergencies happen every single year. Examples include Devil's Lake and Devil's Slide. What can be done to ensure these areas are not treated the same as truly unforeseeable events worthy of funding under the ER program?

RESPONSE: The primary determinant for an event's eligibility for the Emergency Relief (ER) program (23 U.S.C. 125) is an emergency declaration by either the President or the Governor of the affected State. A declaration of an emergency by the Governor requires the concurrence of the Secretary. The threshold for eligibility for ER funding to repair federal aid roads is $700,000. However, once an event has been determined to be eligible, it remains eligible for ER funding, subject to the statutory $100 million cap, until completed. The law does not further restrict ER claims to a specific timeframe after the event occurs.

Since both Devil's Lake and Devil's Slide Tunnel have been designated as emergencies, they continue to be eligible for funding. However, FHWA generally holds back some funds each year to be able to fund new and unexpected emergency events and prioritizes funding based on need and ability to obligate.

QUESTION 3: *Administrative Expenses*

- The proposed budget consolidates current Federal-aid highway programs, yet the proposed consolidations do not translate into a reduction of Federal staff overseeing the programs. Why not?

RESPONSE: The Fiscal Year (FY) 2013 Budget request requires oversight of a large and complex set of programs. The consolidation of funding categories, while providing greater flexibility to states, does not lessen the complexity of implementing the overall Federal-aid program. Rather, while the new structure has fewer distinct programs, the proposal retains many of the eligibilities of today's program structure and adds valuable programmatic features that require adequate staff to implement. For example, the Highway Safety Improvement Program establishes a performance based framework that requires FHWA oversight, and FHWA will be required to determine Highway Infrastructure Performance Program performance measures, monitor State performance, and work with States to develop plans to improve performance where necessary.

In addition, almost three quarters of FHWA staff are field personnel who work directly with State DOTs to oversee more than 136,000 active projects that use Federal funds. Projects continue to become larger and more complex, requiring more hands on oversight, and often have complicated financial plans that require expertise to review. Increased transparency, oversight, and audits, including the resulting improvements to the program, also require a greater time commitment from FHWA staff.

FHWA has also made significant efforts to streamline the environmental review and project delivery cycle. While this has required additional resources, it allows the agency to meet the public demand to move projects faster to save money and deliver benefits to the public sooner without detriment to public involvement or environmental consideration.

Even with the programmatic changes and the agency's substantial oversight responsibilities, the budget request keeps FHWA's staffing levels at FY 2010 levels. The proposed staffing level is necessary to properly execute FHWA's mission of improving mobility on our nation's highways through national leadership, innovation, and program delivery.

FAA and FRA – Proposed Fees

QUESTION 4: The FAA and FRA budgets include new fees estimated at around $1 billion. However, the budgets provide little justification regarding the purpose of such fees. There also is no information on whether these fees are something that can be legislated on an appropriations bill without controversy.

- If the Appropriations Committee does not include these new fees in its bill, how do your agencies suggest we meet the resulting shortfall of nearly $1 billion?

RESPONSE: The FY 2013 President's Budget proposes new user fees, which will allow the Department to recover costs related to oversight of private industry, ensuring safety and continuation of operations.

The FY 2013 President's Budget request for FRA includes $80 million in offsetting collections from user fees administered by FRA for rail safety inspector personnel and programs. These fees will assign railroads with a fair share of costs for ensuring railroad safety requirements are met, and would make FRA more consistent with other DOT safety regulating modes, which all have some form of cost-recovery through fees. This will offset the costs associated with 359 existing safety inspectors and their activities. Without this additional income, a larger contribution from the Treasury's General Fund would be required to support FRA's safety and operations budget.

The President's FY 2013 budget proposes air traffic service fees to reduce the deficit and more equitably share the cost of air traffic services across the aviation user community. The proposed fee would generate an estimated $10 billion over the next ten years that would directly support all FAA programs. In a challenging budget environment, we believe it's essential that those who benefit from our world-class aviation system help pay for its ongoing operation. Without this additional income to the Airport & Airway Trust Fund, per current law a larger contribution from the Treasury's General Fund would be required to support FAA's budget. The FAA will work with Congress to ensure the aviation system remains safe and efficient and to advance the modernization of our aviation system.

FRA – RRIF (Railroad Rehabilitation & Improvement Financing)

QUESTION 5: Administrator Szabo, Iowa is home to 13 short line railroads that operate nearly half of the state's total railroad network. Approximately 40% of all grain moved by rail in Iowa is handled at some point by short line railroads.

- Since January 2009, how many RRIF applications have been submitted to the FRA?

- Since then, how many RRIF applications have been approved? How many are still pending?

- Given that FRA has a 90-day turnaround requirement in statute for these applications, and is obviously behind schedule, what is it doing to speed up its reviews?

RESPONSE: FRA has received 34 RRIF applications since 2009, 15 applications were submitted in 2009, 6 in 2010, 11 in 2011, and 2 in 2012.

Since 2009, 9 applications were approved and 11 are still pending.

The clock for the 90-day turnaround requirement begins when FRA receives a completed application. Many of the applications submitted to FRA are incomplete and part of the delay in application review is waiting to receive all of the necessary information. To speed up the loan approval process, FRA is emphasizing pre-application meetings whenever possible to improve the quality of applications, such

that relevant information is submitted quickly and applications can be deemed complete in a shorter timeframe. FRA is working to expedite the review process once an application is complete in order to meet the 90-day deadline. However, since this is a loan program, which puts the Government and ultimately taxpayers at risk, FRA must ensure that it conducts a robust financial review to ensure the applicant is credit worthy and demonstrates the ability to repay the loan over time.

Federal Aviation Administration

QUESTION 7: *ERAM (En Route Automation Modernization) Program*
The Inspector General has noted significant schedule delays in the ERAM program, which is an important bridge to the NextGen system of air traffic control. A key to success of both ERAM and NextGen is meeting a realistic deployment schedule on budget.

- What lessons learned has the FAA taken from the ERAM program?

RESPONSE: The ERAM program has yielded a number of lessons-learned and associated improvement opportunities whose implementations are ongoing. Over the past year, changes have been made in the following areas to incorporate the lessons-learned and improve program management and operational efforts. The changes cited below generally reflect the input provided by the Office of the Inspector General.

- Governance: FAA has improved collaborative decision-making and strategic oversight of the program through a variety of working groups – one focused on collaboration with union partners (the Article 48/11 work group), one focused on sharing lessons-learned with the field facilities (the ERAM Steering Committee), and one focused on developing new requirements with end-user input (the National User Team).
- Communication: FAA has developed a recursive program review forum in concert with its union partners, other FAA headquarters stakeholders, and FAA facility teams to improve the timeliness of information sharing and upstream identification of potential cost or schedule risks.
- Testing: Software quality has been improved through the introduction of longer test cycle times to implement a testing process that allows both operational and non-operational sites to participate in targeted testing activities. This approach helps to reduce any risk associated with operational conditions that cannot be fully replicated at the FAA's Technical Center lab facilities.
- Process: FAA has led the multi-faceted implementation of process improvements in each of the lessons-learned areas. This concerted effort toward enhancing program management best-practices improved the timeliness and quality of management information within the program as well as the program's responsiveness to customer needs in the field.
- Requirements management: FAA has developed a new way to define requirements using an 'on the glass' perspective before software is developed by the vendor. This process has improved the vendor's ability to build software that meets the operational need from the start and reduced the need to 'fix' software after it has been introduced to the field.

- Risk management: FAA has implemented new processes that reconcile portfolio-level oversight and management with program-level risk, issues, and opportunities management, based on industry and FAA best-practices.
- Transition planning: The transition of management responsibility for ERAM from the program office to the operations and maintenance organization was accelerated in an effort to improve ownership of operational needs and re-purpose best-practices from legacy systems as much as possible.
- People: Personnel adjustments within the program office (including a new Director, Manager of Air Traffic Automation Systems, Program Manager, Deputy Program Manager, and changes to supervisory personnel) as well as more broadly in the FAA (through the creation of the Program Management Organization) enhanced overall team performance, leadership, and collaboration across lines of business.

QUESTION 8: Will you incorporate these lessons in the new program management office structure?

RESPONSE: Yes, lessons-learned from ERAM were incorporated into the new Program Management Organization (PMO) structure. In creating the PMO, FAA assembled NextGen initiatives and the majority of other ATO programs (which used to be housed in several lines of business) under one organization that specializes in program management. This improves consistency of program execution through information sharing with stakeholders, institutionalization of acquisition best practices, and community review of lessons learned.

The creation of the PMO boosts key individual and organizational capabilities, such as program management, systems integration, software engineering, and communication, which are necessary to fully support and develop NextGen. The PMO clarifies and enhances program management and related acquisition career paths, and helps us attract and retain the most highly skilled and motivated individuals on program management teams.

Programs such as Data Communications, Time Based Flow Management (TBFM), and Terminal Automation Modernization and Replacement (TAMR) benefit from the portfolio management concept of the PMO with holistic reviews of risks and opportunities at the corporate level.

QUESTION 9: What is the current schedule for ERAM deployment nationwide?

RESPONSE: The current schedule for ERAM deployment nationwide is shown below:

ARTCC	Initial Operating Capability (IOC) Date
Salt Lake City (ZLC)	June 18, 2009 (ORD – March 23, 2012)*
Seattle (ZSE)	September 17, 2009 (ORD – April 23, 2012)*
Denver (ZDV)	December 23, 2011
Albuquerque (ZAB)	December 30, 2011
Minneapolis (ZMP)	December 30, 2011
Chicago (ZAU)	January 7, 2012

Oakland (ZOA)	January 28, 2012
Los Angeles (ZLA)	January 28, 2012
Houston (ZHU)	April 14, 2012
New York (ZNY)	1st quarter FY2013
Kansas City (ZKC)	1st quarter FY2013
ARTCC	**Initial Operating Capability (IOC) Date**
Boston (ZBW)	1st quarter FY2013
Indianapolis (ZID)	2nd quarter FY2013
Washington (ZDC)	2nd quarter FY2013
Cleveland (ZOB)	2nd quarter FY 2013
Memphis (ZME)	2nd quarter FY 2013
Fort Worth (ZFW)	3rd quarter FY2013
Atlanta (ZTL)	3rd quarter FY 2013
Jacksonville (ZJX)	4th quarter FY2013
Miami (ZMA)	4th quarter FY2013

*ORD: Operational Readiness Demonstration

QUESTION 10: *NextGen Program*
The budget request still talks about the NextGen program in very general terms and without many specifics on the technologies and infrastructure required for the program, and the costs of each part of the program.

- When will you be able to provide us with a more concrete plan for deployment of each of the technologies of NextGen?
- When will you be able to provide us with specific efficiencies of each component of the program?
- Will you be able to provide us with specific examples of how this new system will improve our nation's commerce?

RESPONSE: Aviation is a significant contributor to the U.S. economy. The most recent FAA Aerospace Forecast estimates there will be one billion passengers using the system in 2024. Managing the many aspects of the aviation system generates more than 10 million domestic jobs and contributes to more than 5 percent of U.S. Gross Domestic Product. The economic cost to the economy due to delays and other operational constraints in the NAS is considerable. The deployment of NextGen technologies and procedures will enable more efficient operations and increase capacity, all of which will contribute to growth in U.S. commerce.

The FAA publishes a NextGen Implementation Plan each year. The plan details NextGen accomplishments, current plans, and future challenges. The plan is developed and adjusted each year with input from industry. The plan documents the implementation schedules for the NextGen acquisition portfolio and the expected operational improvements and benefits they will provide. The 2012 NextGen Implementation Plan is currently available on the FAA website at: http://faa.gov/nextgen/slides.

The NextGen program will deliver operational improvements to system users and operators through a combination of new technologies, including hardware and software capabilities, as well as procedural changes throughout all phases of flight.

NextGen continues to deploy new technologies and capabilities such as:

- Roll-out of Automatic Dependent Surveillance-Broadcast (ADS-B) radios and broadcast services. FAA has over 339 radios providing service, with a target of 500 by the end of FY 2012 and all 800 in place next year.

- In the Gulf of Mexico, separation services are being provided and efficiencies for helicopter operators are already being achieved.

- FAA formed public-private research partnerships with air carriers to offer satellite-based navigation routes in areas without traditional radar coverage. The FAA will receive the ADS-B data from these flights to document the cost-saving potential of this technology.

- Rather than focusing on a single airport or set of procedures, FAA is analyzing and providing solutions to congestion issues and environmental constraints on a regional scale. By creating Metroplex teams, FAA will be able to more efficiently implement NextGen capabilities and, thereby, more quickly realize benefits.

    - The Metroplex effort uses Performance Based Navigation (PBN) improvements combined with minor airspace adjustments, which can be completed within three years. FAA has completed some studies, identified improvements, and is moving into implementation at seven of our 21 Metroplex locations.

    - FAA has completed studies and begun design activities at five metroplex areas: Washington, D.C., Houston, Atlanta, Charlotte, and North Texas. Meanwhile, FAA is starting studies at four more metroplexes: Northern California, Southern California, Central Florida, and Southern Florida. FAA is targeting a total of 21 metroplex areas in this improvement program, adding them at a rate of about five per year for studies followed by the initiation of design work.

- In response to industry input, FAA substantially increased the number of Performance Based Navigation (PBN) routes and procedures available. PBN provides direct routes, which save time and fuel and reduce aircraft exhaust emissions.

    - One such procedure, known as Optimized Profile Descent (OPD), enables aircraft to descend from cruise altitude to an airport runway along a shorter, more direct flight path at lower engine power -- saving fuel and reducing emissions. This year, FAA published OPDs at Phoenix, AZ, Honolulu, HI and Charleston, SC.

    - Off the Pacific and Atlantic oceans, FAA is providing tailored arrivals with OPD clearances using oceanic data communications at San Francisco, Los Angles, and Miami. Over 23

percent of arriving flights are requesting these procedures at LA and San Francisco, with over half of those requests being granted.

- The FAA's System-Wide Information Management (SWIM) program is providing weather information to our users in formats that can be easily used in their systems in an effort to improve our joint planning for bad weather. In addition, FAA is providing surface traffic information from all major airports where our Airport Surface Detection Equipment Model –X (ASDE-X) system is deployed. This is a surveillance system using radar and satellite technology that allows air traffic controllers to track surface movement of aircraft and vehicles. It was developed to help reduce critical runway incursions.

Together the NextGen technologies will provide economic and environmental benefits throughout the National Airspace System (NAS). Economic benefits through 2020 are projected to be $24 billion. These benefits of lower operational costs for commercial operators result from fewer delays and more efficient flight paths, which save time and will reduce fuel consumption by 1.4 billion gallons through the 2020 timeframe. The combination of lower fuel consumption and development in the long-term of new fuels will potentially reduce CO2 emissions by 14 million tons.

Federal Transit Administration

QUESTION 11: *Transit FTE*

The budget proposes increasing Transit's personnel by 117 FTE over the current year: 47 new FTE for the base program, 45 new FTE for a new unauthorized Office of Safety, and 25 new FTE for a new unauthorized Rail Transit Safety Initiative. That is a 22% increase.

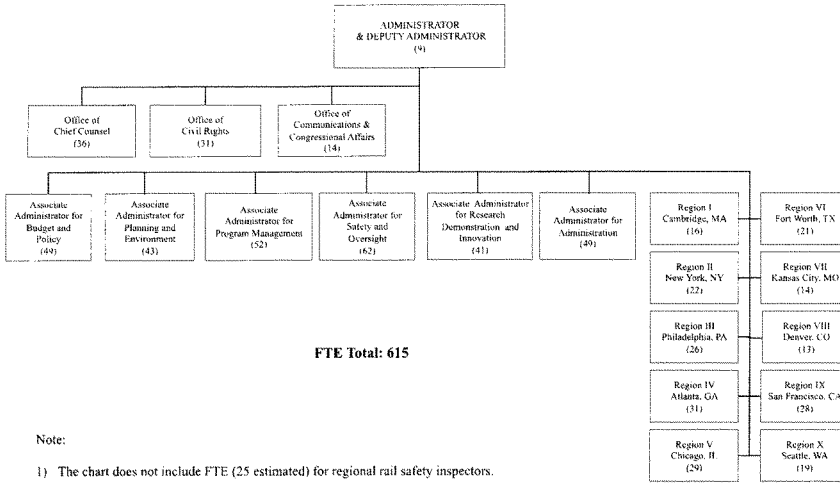
- How many positions are you funding with 47 FTE, and what will be the out-year costs?

- Please submit an FTA organization chart showing all offices and FTE. Please note the ARRA FTE and the 47 proposed FTE.

RESPONSE: FTA estimates the 47 FTE requested in the FY 2013 budget equate to approximately 69 positions. A range of factors that are not known at this time including government-wide pay raises, promotions, and within grade increases will determine the total out-year costs of these positions.

Below is the proposed organization chart:

FEDERAL TRANSIT ADMINISTRATION
FY 2013 Budget
Organizational Chart with Estimated FTE Allocation



FTE Total: 615

Note:

1) The chart does not include FTE (25 estimated) for regional rail safety inspectors.

Federal Transit Administration
FY 2013 Budget Estimate
Allocation of FTE

HQ Offices	FY 2012 Enacted (Including ARRA)	End of ARRA 9/30/2012	Delta FY 2013 On-Budget Realignment	Delta Safety Initiative	Delta: Strengthen Core Operations	Total
Office of the Administrator	9	0	0	0	0	9
Office of Chief Counsel	34	0	0	2	0	36
Office of Civil Rights	27	0	0	0	4	31
Office of Communications and Congressional Affairs	14	0	0	0	0	14
Office of Budget and Policy	52	-2	-3	0	2	49
Office of Planning & Environment	40	-3	0	0	5	42
Office of Program Management	73	-5	-23	2	6	53
Office of Safety and Oversight	0	0	23	39	0	62
Office of Research, Demonstration & Innovation	36	0	3	2	0	41
Office of Administration	59	-1	0	0	1	59
HQ Subtotal	*344*	*-11*	*0*	*45*	*18*	*396*
Regional Offices						
Region 1 - Cambridge, MA	15	0	0	0	1	16
Region 2 - New York, NY	21	-2	0	0	3	22
Region 3 - Philadelphia, PA	26	-3	0	0	3	26
Region 4 - Atlanta, GA	31	-5	0	0	5	31
Region 5 - Chicago, IL	31	-6	0	0	4	29
Region 6 - Fort Worth, TX	22	-4	0	0	3	21
Region 7 - Kansas City, MO	14	-2	0	0	1	13
Region 8 - LakeWood, CO	13	-1	0	0	2	14
Region 9 - San Francisco, CA	29	-5	0	0	4	28
Region 10 - Seattle, WA	19	-3	0	0	3	19
Regions Subtotal	*221*	*-31*	*0*	*0*	*29*	*219*
Safety						
Safety Inspectors*	0	0	0	0	0	25
Total	**565**	**-42**	**0**	**45**	**47**	**640**

Note: The Table reflects FTA's estimate of FY 2013 staffing needs based on priorities of environmental assessment (16 FTE at HQ and Regions, regional operations, civil rights compliance, and grants management and oversight. Actual allocations are subject to appropriation of funds, and distribution and timing of attrition and successful recruitments. Does not include five reimbursable FTE in the Lower Manhattan Recovery Office.

ARRA Staffing numbers are the October 1, 2011 base line.

* Estimates of Federal FTE; the final number would be determined by States' decisions to hire their own safety inspectors.

QUESTION 12: *FTA State of Good Repair and Operating Assistance*

The budget proposes to allow local agencies extra flexibility to use capital funds for operating expenses under limited circumstances.

- Isn't the flexibility to use capital money for operating contrary to your emphasis on the need for funds to address the state of good repair?

- When transit agencies make their applications to use capital funds for operating, will they need to demonstrate that they have their asset management systems and plans in place?

- Will transit agencies have to demonstrate that they have achieved a state of good repair – or even moderate repair – in order to forgo the investment in capital improvements for operating expenses?

Under the proposal, a transit authority can have a 3 year exemption to use capital funds for operating, with decreasing percentages allowable across the 3 years.

- Will you require the locality or state to demonstrate that they have in place or underway measures or alternative sources of revenue that will back-fill the flexed funds and put the transit agency on the path of greater operating financial solvency?

- How will you ensure that these agencies aren't just creating another hole they will have to dig out of?

RESPONSE: FTA shares your concern that transit agencies supported with federal funds demonstrate structured asset management plans and systems to achieve a state of good repair. However, FTA does not believe that these should be a prerequisite to qualify to use part of formula funding apportionments for operating expenses on a limited basis. The reality is that sometimes even large transit agencies face financial pressures because of downturns in local economies. This was true during the recent recession, which is why FTA proposes that a limited portion of section 5307 Urbanized Area formula funds be available for operating costs on a temporary and targeted basis. It is important to understand that this would not be a new source of Federal funding; it would simply provide flexibility to large urban transit agencies to use a portion of their Urbanized Area Formula apportionment if needed for operating assistance. The proposal is meant to ensure that bus and rail services in areas hard-hit by economic downturns maintain at least baseline service levels necessary for customers to commute to work, attend medical appointments, go grocery shopping, and conduct other personal business.

FTA's current proposal to expand its operating assistance authority does not detract from its focus on a achieving a nationwide state of good repair; but instead, by directing more resources where they are most needed, FTA's budget recognizes both issues – the need for operating assistance and the investment in transit infrastructure renewal – and offers solutions to each. Having documented a nationwide state of good repair backlog of $78 billion, FTA also proposes dedicating a major portion of its resources to begin mitigation through a new $3.2 billion Bus and Rail State of Good Repair program. It is important to understand that transit services are complex, with operators across the country serving both large and small communities, some with old infrastructure and some new, and some with prosperous local economies and some not. Consequently, FTA offers a range of program assistance, including grants for bus and bus facilities, rail infrastructure, preventative maintenance, and operating assistance.

FTA also shares your interest that large urban transit agencies rely on this operating assistance for only a limited time and do not shift their financial burden onto Federal tax payers. To ensure this does not happen, FTA will require that each transit agency certify to FTA that its local funding partners do not reduce the proportion of local funding dedicated to transit (e.g., reducing a local tax rate dedicated to transit) and that service levels are maintained and not cut below previous levels. Moreover, transit agencies that use this new authority must wait for a period equal to the numbers years they use it, so a transit agency that uses it for three years must wait three years before being able to use it again.

Questions from Ranking Member John Olver

Loan Guarantees/Funding for Aircraft Equipage

QUESTION 1: Mr. Huerta, one of the keys to NextGen success is ensuring that aircraft are equipped with the proper avionics to operate in a satellite-based navigation system. The recently passed FAA Reauthorization Bill includes language that would allow DOT to create an avionics equipage incentive program to equip both general and commercial aviation aircraft for NextGen. Absent appropriations to fund this initiative, you are given the authority to levy fees and premiums from industry to cover the costs of the program.

- **Will the Administration use this language to develop an equipage incentive program, absent an appropriation?**
- **What steps have you taken, if any, to explore this option?**
- **What is your timeframe on developing an equipage incentive program?**
- **What progress is the aviation industry making on their own to make sure they are equipped to realize the benefits of NextGen? Don't your rules require them to equip for ADS-B by 2020?**

RESPONSE: The FAA is pleased with the authority in the recently enacted Reauthorization Bill that allows the agency to establish an avionics incentive program to help commercial and general aviation (GA) aircraft equip with NextGen avionics. The FAA must have the authority to enter into a loan guarantee program recognized in an appropriations Act in accordance with the Federal Credit Reform Act of 1990.

We are currently talking to our stakeholders to seek their input on the loan guarantee program. We hope to design a program that meets their needs. Our goal for an equipage program would be to encourage deployment of NextGen-capable aircraft in the National Airspace System sooner than would have occurred otherwise.

Alternative Fuels Research (CLEEN)

QUESTION 2: Mr. Huerta, over the last few years, this Subcommittee has provided increased funding to advance the FAA's research on alternative fuels. The FAA's CLEEN program (which stands for Continuous Lower Energy, Emissions and Noise program) is designed to develop and demonstrate new technologies, procedures and sustainable alternative jet fuels. Under CLEEN, FAA awarded five-year agreements to five companies (Boeing, GE, Honeywell, Pratt & Whitney, and Rolls Royce) to help develop technologies that will reduce noise, emissions and fuel burn. The companies in the government-industry consortium will match or exceed the federal investment.

- **This Subcommittee has provided increases for this effort, what impact have these increases had on the advancement of alternative fuels?**

- **What are the next steps? Are there further advances that can be achieved with additional resources?**

RESPONSE: The funding supported fuel evaluation tests by ASTM International, which were critical to approval of the first jet biofuel blend for commercial use on July 1, 2011. The additional funds received are also being used to conduct environmental and economic sustainability analyses of current and future alternative jet fuel approaches.

Next steps include tests on future alternative jet fuels, such as alcohols upgraded to renewable jet fuel (alcohol to jet), sugars and starches converted to jet fuel, and lignocellulosic biomass converted to jet fuel. The testing will support new fuel approvals as early as 2014, continuing to expand the feedstocks and processes available for producing alternative jet fuels.

If additional funding were to be allocated, we could accelerate development and testing of these additional alternative jet fuels for possible approval in 2013. We would also pursue testing of two to three additional jet biofuels for approval around 2015. Additional funds would also allow us to expedite efforts to establish the environmental characteristics of these fuels.

To ensure maximum benefit, we closely coordinate efforts with other government agencies (e.g., US Department of Agriculture, Department of Energy, Environmental Protection Agency) and among industry stakeholders via the Commercial Aviation Alternative Fuels Initiative (CAAFI).

Highway & Transit Funding Levels

QUESTION 3: In FY 2012, this Subcommittee considered a bill that included an obligation limitation of $27 billion for the highway program and $5.2 billion for the FTA's formula program. The final bill included funding levels significantly higher than the ones that were reported by this Subcommittee ($39 billion for highways and $8.3 billion for transit).

- **Could you share with us the impact of funding levels that are limited to $27 billion and $5.2 billion for the highway and transit programs respectively? What does it mean for the state of our infrastructure and the construction jobs that rely on those investments?**

RESPONSE: For FHWA, a funding level of $27 billion for FY 2013 would represent a reduction of approximately 31 percent from current year levels (which are already reduced by nearly 8 percent from FY 2011 levels). A reduction in funding of this magnitude would have a significant impact across most States' surface transportation programs, and impair efforts to keep highways in a state of good repair and reduce the number of structurally deficient bridges, potentially impacting roadway and bridge safety.

A 31 percent reduction in funding would likely make it more difficult for States to plan and execute large, major construction projects, which are critical to the national infrastructure and the economy and jobs it supports.

Additionally, a reduced funding level means fewer and smaller construction projects, which means fewer construction jobs. A $12 billion reduction in FY 2013 would likely depress highway construction jobs and jobs in related industries not only in 2013, but for several years beyond, due to the long-term nature of highway construction projects.

For FTA, a $5.2 billion obligation limitation would represent a 38 percent cut from $8.3 billion in the Formula and Bus Grants Account. This translates to $3.16 billion less funding available for transit agencies in both urban and rural areas. A reduction of this magnitude would significantly hurt transit agencies' finances, particularly their capital finance plans and those smaller transit agencies that rely on FTA funding to help support operations.

It is unlikely that transit agencies would be able to turn to local and State governments, who are facing their own budget crises, to make up budget shortfalls. Many transit operators would either have to raise fares or reduce services which would impact millions of riders that rely on transit service every day get to work, medical appointments, and the grocery store.

Many transit operators in larger cities across the country would also be forced to scale back infrastructure investments needed to ensure a state of good repair for safe and efficient transit service.

Reducing capital investments would cause the cancellation or delay of hundreds of capital and preventative maintenance projects, hurting the performance of transit systems and eliminating important constructions jobs during a critical period when the economy and the job market is trying to rebound from the recession.

Capital Investment Grants: Transit Projects in the Pipeline

QUESTION 4: Mr. Rogoff, your budget requests a total of $2.2 billion for specific new start and small start projects that are in various stages of development. As you know, the highest funding level that the capital investment grant program received in the last several years was $2 billion in FY 2010. Last year, we were forced to make small reductions to each of the projects that have full funding grant agreements.

- **What impact do those types of reductions, no matter how small they are, have on these major transit projects both in terms of cost and schedule?**

RESPONSE: Before signing Full Funding Grant Agreements, FTA evaluates the financial capacity of the project sponsor to withstand unanticipated cost overruns or funding shortfalls to ensure the project can stay on track. While small reductions in annual appropriations of funds for New Starts projects can generally be accommodated by project sponsors without affecting the overall project schedule, they can lead to higher borrowing costs as sponsors seek bond financing to cover the delay in receipt of federal funds. Significant reductions in annual appropriations of New Starts funds could lead to project schedule delays and significant cost increases.

- **If we are only able to fund projects that have full funding grant agreements (and even then not fully as in the case of FY 2012), does it impede FTA's ability to advance projects that are in preliminary engineering and final design?**

RESPONSE: FTA typically honors existing commitments first before recommending additional projects for funding in the President's budget each year. If the program funding level was severely constrained, it would impede FTA's ability to advance projects in preliminary engineering and final design.

Section 140 Mandatory Certification Training Program (as part of P.L. 112-95)

QUESTION 5: Mr. Huerta, the experiences of many minority and women-owned Disadvantaged Business Enterprises (DBEs) have shown that the application of DBE standards has not been applied in a uniform manner. To address this problem and ensure uniform application of relevant DBE standards, Congress recently enacted a new Mandatory Certification Training Program, as part of Section 140 of the recent FAA Bill (Public Law No. 112-95). This section of the FAA bill requires a Mandatory Certification Training Program to be implemented by one or more private entities selected by the FAA. This training program will provide streamlined and standardized training for officials and agents of airport sponsors on the issue of whether a small business concern qualifies as a covered DBE.

- **What is the FAA's timeline for implementation of the Section 140 Mandatory Certification Training Program?**

RESPONSE: FAA has begun the planning to develop and implement the training program. The FAA has met with various agencies and other stakeholders to discuss our planning phases and next steps. These included airports, Disadvantaged Business Enterprises (DBEs), Airport Concession Disadvantaged Business Enterprises (ACDBEs), trade associations, and other agencies with DBE programs under the U.S. Department of Transportation (DOT). The FAA is confident that the program development and training content phases will be complete before the February 15, 2013 deadline.

- **The FAA Bill requires that the FAA select one or more private entities to operate the Mandatory Certification Program. How will the FAA's selection process operate and what criteria with the FAA use to select these private entities.**

RESPONSE: It is important to note that Section 140 of the FAA Reauthorization Bill states that the training program may be implemented by one or more private entities approved by the Secretary. If the FAA decides to pursue program delivery by a private entity, the FAA will develop criteria for a request for proposal or other appropriate selection processes. Criteria may include items such as demonstrated expertise in training delivery and DBE certification, as well as the ability to objectively represent the policies and positions of the FAA, Federal Highway Administration, Federal Transit Administration, and Department of Transportation.

- **The current DBE program is implemented through the Airport Improvement Program (AIP). As you know, Passenger Facility Charges (PFCs) play an increasingly important role in funding airport projects. Does the FAA plan to take steps to ensure that the PFC program incorporates DBE contracting goals?**

RESPONSE: FAA strongly supports all DBE program objectives, including leveling the playing field for minority- and women-owned businesses in airport contracting and concessions opportunities. As you are aware, the application of the Federal DBE Program to AIP-funded projects was authorized by an Act of Congress. However, FAA does not currently have the authority to apply DBE requirements to PFC-funded projects.

- **Many agencies, including the Federal Highway Administration (FHWA) have technical assistance outreach funds for DBEs. Does the FAA have any plans to implement similar programs?**

RESPONSE: The FAA strongly believes that technical assistance and outreach program in the airport environment would be beneficial to the Disadvantaged Business Enterprise (DBE) and Airport Concessions Disadvantaged Business Enterprise (ACDBE) communities provided Congress authorizes such a program. However, absent Congressional action, FAA does not have the authority to create a DBE supportive services program.

- **What steps is the FAA taking to ensure equal application of DBE policies between the FAA Office of Civil Rights and the Department of Transportation Office of Small and Disadvantaged Business Utilization?**

RESPONSE: Disadvantaged Business Enterprises (DBE) policies are applied consistently not only by FAA's Office of Civil Rights and DOT's Office of Small and Disadvantaged Business Utilization, but also by DOT's Office of General Counsel and DOT's Office of Civil Rights, as well as FHWA and FTA, our sister DOT modes with DBE programs. All of these offices generally meet on a bi-weekly basis to coordinate DBE regulations, guidance, policy, and interpretations. In addition, all participate in monthly DBE Task Force Meetings, to leverage resources and exchange information concerning ongoing initiatives. Furthermore, we all participate in a variety of webinars, workshops, and conferences to ensure that the DBE community is receiving a consistent message with respect to DBE program implementation.

Questions from Congressman John Carter

FHWA

QUESTION 1: Mr. Mendez, I see that the President's FY2013 budget request includes $4 billion for the Livable Communities Program to support planning and investments to help communities increase transportation choices and access to transportation services. While the livability concept might work in New York City, Chicago or here in Washington DC, it doesn't necessarily work in rural America and for my constituents in Central Texas. For example, I heard from a group in my district who is building a highway in Central Texas with a 65 MPH speed limit. This group applied for federal grant and did not receive any federal money because they didn't have a bike or walking path next to the highway. I am still trying to figure out who in their right mind would want to ride a bike or walk next to a road with pickup trucks and 18 wheelers going 65 MPH. Does that make sense to you?

RESPONSE: There is no question that livability concepts are implemented differently for our Nation's rural and urban communities. However, the concept of livability originated in rural areas and focuses on creating neighborhoods with transportation options similar to the main street of many rural communities. FHWA supports the accommodation of safe and convenient facilities for all transportation modes and users, including motorists, bicyclists, and pedestrians. FHWA is continually developing new materials to assist States, localities, and citizens in improving roadway, pedestrian and bicycle safety.

I believe the project to which you are referring applied for an FY 2011 TIGER grant. The TIGER grant program is extremely competitive. For the FY 2011 funding, the Department received 848 applications requesting a total of $14.29 billion. Of those 848 applicants, 46 projects received a total of $511 million. The overwhelming demand meant difficult choices had to be made in selecting among many worthy projects. In many cases, applications that are highly recommended do not receive funding because there is not enough money to fund them all. In addition, there is no policy at the Department to require bike lanes as a part of TIGER grant awards for road projects. DOT has funded many road projects in the past through this program that did not include bike facilities. The Department provides debriefs for all applicants to help them understand how their application was reviewed and how it might be more competitive. The Department would be happy to provide a debrief to the project in your district.

QUESTION 2: What is the Administration doing to speed up the approval of highway projects across the country? What parts of NEPA would you like to see modified by Congress to allow for projects to be streamlined approved in a more efficient manner?

RESPONSE: More than two years ago, FHWA launched the Every Day Counts (EDC) innovation initiative to reduce project delivery timeframes and help improve transportation decision-making. Through EDC, we have created a toolkit that includes a number of specific strategies to shorten project delivery time. This toolkit includes initiatives for using existing flexibilities in the law and not duplicating efforts in the planning and environmental review process. We also recommend a number of innovative contracting practices.

Through EDC, FHWA is expanding the use of Programmatic Agreements (PAs). PAs are agreements between State Departments of Transportation (State DOTs) and Federal agencies that specify roles and responsibilities related to certain Federal laws and help establish a streamlined process for handling routine environmental requirements for commonly encountered project types. The continued and expanded use of PAs, where process reviews and permit application procedures have been standardized and agreed upon, has been very effective in saving time. When prior agreements exist to address environmental impacts, projects are reviewed more quickly and trust is developed that results in improved relationships between State DOTs and regulatory agencies. The goal of this initiative is to identify and assist in the expansion of new and existing programmatic agreements at the regional and national levels. FHWA has completed 14 PAs, and 29 are in progress. A good example is the work that is underway to complete a national exemption/program alternative to administratively address the historic status of common mid-20th century bridge types.

Another EDC project acceleration strategy is Mitigation Banks or In-Lieu Fee programs. In projects that will impact waters of the United States, the permitting process under section 404 of the Clean Water Act (CWA) is an important part of the project development process. State DOTs can often fulfill their mitigation obligations under the CWA by purchasing credits in a bank or paying into an in-lieu fee program. The EDC toolkit encourages use of in-lieu fees and mitigation banking where appropriate and allowed under existing statutes, FHWA regulations, State laws, and court decisions. Generally, mitigation banks and in-lieu fee programs provide for mitigation on a larger ecological scale, which is funded by multiple transportation and non-transportation projects. This approach saves time and expedites project delivery. Thirteen States have developed either Mitigation Banks or In-Lieu Fee programs.

Through EDC, FHWA has also expanded the use of Enhanced Technical Assistance to identify major challenges on delayed projects and implement solutions to resolve project delays where feasible. Training and on-site assistance is targeted at the specific areas causing delay. Six projects have completed environmental review (Record of Decision or Finding of No Significant Impact) with the help of this assistance. Building off these successes, FHWA will provide additional technical assistance to regional environmental practitioners over the next year.

Included within the EDC innovation initiative is Planning and Environmental Linkages (PEL), an approach to transportation decision-making that considers environmental, community, and economic goals early in the planning stage and carries them through project development, design, and construction. This can lead to a seamless decision-making process that minimizes duplication of effort, promotes environmental stewardship, and reduces delays in project implementation. In order to aid agencies in incorporating PEL principles into their planning and environment review processes, FHWA introduced the PEL Questionnaire, to help ensure that planning information and decisions are properly documented to be utilized in the NEPA review process. Every FHWA division office has been trained in the use of PEL, and 15 offices have adopted the PEL questionnaire or an equivalent document.

In addition to our EDC efforts, FHWA is implementing recent Council on Environmental Quality (CEQ) guidance on Efficient and Timely Environmental Reviews under the National Environmental Policy Act and the Presidential Memorandum – Speeding Infrastructure Development through More Efficient and Effective Permitting and Environmental Review. FHWA is developing "eNEPA," an

online tool that will promote improved accountability, transparency, and efficiency via concurrent reviews. As part of these efforts, FHWA also takes advantage of opportunities provided by the CEQ's NEPA Information Technology (IT) Working Group to collaborate with other agencies and streamline development of IT NEPA solutions. FHWA participates in the Transportation Rapid Response Team, both with Principals and at the Senior Staff level, to expedite review of Presidential High-Priority Infrastructure Projects. Through a recently launched community of practice for Transportation Liaisons, FHWA is sharing best practices among transportation project reviewers from Federal and State Resource agencies.

FHWA also continues to implement the provisions enacted by Congress in SAFETEA-LU aimed at streamlining environmental review, while preserving the environment, including: development of coordination plans, and early identification and involvement of participating agencies and the public. These collaborative efforts result in better purpose and need statements and identification of alternatives. Additional flexibilities that have limited delays include the 180-day Statute of Limitation Notice to limit last minute legal challenges, and allowing de minimis Section 4(f) findings.

QUESTION 3: Can you name one regulation in the past year that FHWA has proposed and published in the federal register that was repealed after review by the President and OIRA?

RESPONSE: While the FHWA has undertaken the retrospective review of several regulations under EO 13563 during the past year, no FHWA regulations have been repealed because of this review.

FHWA follows the process outlined in Executive Order (EO) 12866 (Regulatory Planning and Review) and DOT Order 2100.5 (Regulatory Policies and Procedures) for the initiation and promulgation of all rulemaking activities. Under this process, all regulations are submitted to OIRA prior to publication for a significance determination under EO 12866. All significant rulemakings are further reviewed by OIRA during a 90-day review period prior to publication. After regulations are finalized, the FHWA continues to review its regulations under EO 13563 (Improving Regulation and Regulatory Review) and through its Section 610 reviews under the Regulatory Flexibility Act.

FAA

QUESTION 1: Mr. Huerta, in my state of Texas alone, there are 391 public use airports serving 50,932 pilots and 31,690 general aviation aircraft. According to a 2011 report from the Texas Department of Transportation on the economic impacts of general aviation, activities and expenditures associated with airports, business activities of airport tenants, and visitor spending by general aviation pilots created $14.6 billion in economic activity in Texas in 2010, supporting over 56,600 jobs paying $3.1 billion in salaries, wages, and benefits. What is DOT and the FAA doing to encourage growth in general aviation industry?

RESPONSE: The FAA recognizes the critical role general aviation (GA) plays in supporting jobs and generating significant economic activity for the country. Support for GA is part of the Administration's goal to invest in the nation's transportation infrastructure. The U.S. Department of Transportation and the Federal Aviation Administration (FAA) continue to invest in and improve GA

and airports that serve GA through ongoing initiatives including direct support to airports, the NextGen Air Transportation System (NextGen), safety enhancements, and improving access to data.

To support the nation's GA airports, FAA awards an average of $1 billion in Airport Improvement Program (AIP) grants annually. These grants help GA airports fund safety, capacity, standards and environmental improvements. Moreover, under the State Block Grant Program, participating states like Texas are allowed to administer AIP funds at non-primary airports. In addition, FAA has been working with the GA community to undertake a study to develop a strategic plan for GA airports in the U.S.

Through NextGen, the FAA has demonstrated its commitment to ensuring improved access and level of service for GA operators. For example, with the implementation of new technologies and procedures for the Wide Area Augmentation System (WAAS), and Localizer Performance with Vertical Guidance (LPV), GA operators have unprecedented access to airports where no ground-based instrument landing systems exist. Using these technologies and procedures, GA aircraft can land at airports even when visibility is limited. As of February 2012, there were nearly 2,800 WAAS LPV approach procedures to more than 1,400 airports throughout the United States.

Enhancing safety in GA operations is an FAA priority and is critical to supporting the growth of GA. Reducing the fatal accident rate for GA is one of the agency's strategic goals. We are also improving tracking of aircraft position and providing GA operators with tools that provide increased awareness of weather, terrain, aircraft and other conditions in the national airspace. Through another NextGen technology, Automatic Dependent Surveillance-Broadcast (ADS-B), GA pilots will have greater situational awareness.

To further enhance access and capabilities of GA aircraft and pilots, the FAA is currently developing technologies and policies that make FAA data more accessible to GA pilots through internet-based portals. These portals support open government initiatives and will enable individual pilots to access new sources of information. The FAA is also making data and services more accessible through the use of new tools like the Apple iPad, which, when used as an Electronic Flight Bag, can be used for viewing navigational charts and approaches to airports.

Through these initiatives, FAA continues its active support of the GA industry.

QUESTION 2: The recently enacted FAA Reauthorization bill authorizes the Secretary to establish a Federal loan guarantee program to incentivize NextGen equipage. The issue of equipage has been a central point in all of FAA's and DOT's NextGen testimonies for more than a year.

When should the aviation community expect implementing guidance and how do you envision the new program working?

RESPONSE: The FAA is pleased with the authority in the recently enacted Reauthorization Bill that allows the agency to establish an avionics incentive program to help commercial and general aviation (GA) aircraft equip with NextGen avionics.

We are currently talking to our stakeholders to seek their input on the loan guarantee program. We hope to design a program that meets their needs. Our goal for an equipage program would be to encourage deployment of NextGen-capable aircraft in the National Airspace System sooner than would have occurred otherwise.

QUESTION 3: For FY 2013, the President's budget requests $36 million for Performance Based Navigation (PBN) to streamline navigation procedures at our nation's busiest airports. Can you share how general aviation will benefit from this?

RESPONSE: The FAA has published a significant number of arrival and departure procedures in addition to high- and low-altitude routes taking full advantage of Global Positioning System (GPS) technology. These new Performance-Based Navigation (PBN) procedures are designed to provide greater flexibility in the National Airspace System (NAS). The general aviation (GA) community will realize benefits from this technology with access to more efficient routings and procedures.

One area where GA will benefit is within the Optimization of Airspace and Procedures in the Metroplex (OAPM) program. This program uses a collaborative process between NAS users and the FAA. A primary focus of OAPM is to take advantage of new navigation technologies associated with the Next Generation Air Transportation System (NextGen). These efforts optimize both arrival and departure procedures to reduce miles flown and minimize level offs during flight to save both time and fuel burned. These improvements are based on Required Navigation Performance (RNP) and Area Navigation (RNAV) systems. Any aircraft properly equipped, including GA aircraft, will be able to use these procedures. Overall, this initiative provides a variety of benefits for aircraft operators, including savings in the amount of fuel burned and reduced emissions.

The Navigation Procedures Project (NAVLean) will also provide benefits to the GA community. This project restructures and streamlines the instrument flight procedures (IFP) development and implementation process. The IFPs are available to all airspace operators, including the GA community. This initiative benefits all users of the NAS by creating a more efficient and cost-effective process.

QUESTION 4: For Wide Area Augmentation System (WAAS), the President's budget requests $96 million. Will the request impact delivery of WAAS approaches as outlined in the NextGen Implementation Plan?

RESPONSE: The FY2013 President's budget request will not impact the delivery of WAAS approaches. The budget supports the development of 500 WAAS approach procedures, as outlined in the NextGen Implementation Plan.

QUESTION 5: The FAA plans to publish WAAS Localizer Performance with Vertical Guidance (LPV) approach procedures for all suitable runway ends by 2016 which equates to about 500 approaches annually. With the funding request for WAAS, will the FAA still be able to meet this goal of having LPV approach procedures to all suitable runway ends by 2016?

RESPONSE: The FY 2013 President's budget supports the development of 500 procedures in FY 2013. The publication of WAAS approach procedures at all suitable runway ends by FY 2016 will require FAA to continue developing 500 procedures per year over the next four years. The FAA Capital Investment Plan assumes completion of this goal.

QUESTIONS 6 and 7: The FAA's decision to begin charging for digital chart products has sparked some concern throughout the general aviation community over the possible cost and safety implications.

Does the FAA have a timeline for their proposal and the anticipated cost for these products?

Has the FAA looked at how this proposal may impact safety and addressed any concerns to ensure there is no degradation of safety?

RESPONSE: The Federal Aviation Administration (FAA) has been selling both paper and digital aeronautical charts and products since the Aeronautical Charting Program was transferred to the FAA from the National Oceanic and Atmospheric Administration in October 2000. Aeronautical charts and related products have been fee-based by legislation since their inception in 1926.

With the growth of the internet and advances in personal computing devices, pilots have relied increasingly on digital aeronautical products rather than traditional paper charts. The FAA digital products are being replicated and resold without authorization. In some cases, this is done in a way that does not preserve the integrity of the original product, which creates potential risk to aviation safety. In addition, FAA's cost recovery for digital products has not kept pace with changing technology.

In late 2011, FAA developed a draft proposal to address security, safety, and cost recovery issues for paper and digital electronic products. The FAA's AeroNav Products Directorate hosted a session with authorized aeronautical chart agents, application developers, and representative stakeholder groups (e.g., National Business Aviation Association, Aircraft Owners and Pilots Association, and the General Aviation Manufacturers Association) on December 13, 2011, to discuss the proposal and to gather comments and ideas which will be incorporated in the final proposal.

The FAA is now verifying costs and pricing to help develop a final proposal. Once complete, FAA will publish the final proposal to ask for comments and to address any additional concerns and questions. The FAA has not set any dates to publish the final proposal or a timeline for implementation.

The proposal will address both safety and cost concerns, ensuring that pilots receive safe and accurate navigation products.

QUESTION 8: The FAA recently launched an effort to redesign the airspace procedures surrounding several metropolitan areas around the nation, including in Dallas, TX. From all accounts, this appears

to be an inclusive collaboration between the agency, the airlines, pilots and air traffic controllers. From your perspective, has the inclusion of controllers and pilots been helpful in this process?

RESPONSE: The inclusion of controllers and pilots, as well as other aviation stakeholders, in the Optimization of Airspace and Procedures in the Metroplex (OAPM) process is essential to its success. The aviation community is very knowledgeable about how airspace and instrument procedures can be revised to better meet their needs. For North Texas, participating airline operators include American and Southwest Airlines; Delta Air Lines is also updated on the project's progress. Aviation professional organizations participating in the project include the Aircraft Owners and Pilots Association, Air Line Pilots Association, National Business Aviation Association, and Southwest Airlines Pilots' Association.

Similarly, the air traffic control (ATC) community within the area is represented by both members of management and the National Air Traffic Controllers Association from all of the ATC facilities in the area. By collaborating with all ATC entities, including adjacent facilities, the parties can better understand the rationale for the existing design and the changes that would be needed to improve the flyability of the procedures without degrading ATC system effectiveness or safety.

Questions from Congressman Diaz-Balart

QUESTION 1: FAA: Wide Area Augmentation System (WAAS) and Performance Based Navigation (PBN). The FAA's own proposed policy highlights WAAS as the preferred navigation to transition to NextGen and Performance Based Navigation (PBN). For FY 2013, the President's budget requests $36 million for Performance Based Navigation (PBN) to streamline navigation procedures at our nation's busiest airports. Can you share how general aviation will benefit from this? For WAAS, the President's budget requests $96 million. Will the request impact delivery of WAAS approaches as outlined in the NextGen Implementation Plan? The FAA plans to publish WAAS Localizer Performance with Vertical Guidance (LPV) approach procedures for all suitable runway ends by 2016 which equates to about 500 approaches annually. With the funding request for WAAS, will the FAA still be able to meet this goal of having LPV approach procedures to all suitable runway ends by 2016?

RESPONSE: The FAA has published a significant number of arrival and departure procedures in addition to high- and low-altitude routes taking full advantage of Global Positioning System (GPS) technology. These new Performance-Based Navigation (PBN) procedures are designed to provide greater flexibility in the National Airspace System (NAS). The general aviation (GA) community will realize benefits from this technology with access to more efficient routings and procedures.

A primary focus of OAPM is to take advantage of new navigation technologies associated with the Next Generation Air Transportation System (NextGen). These efforts optimize both arrival and departure procedures to reduce miles flown and minimize level offs during flight to save both time and fuel burned. These improvements are based on Required Navigation Performance (RNP) and Area Navigation (RNAV) systems. Any aircraft properly equipped, including GA aircraft, will be able to use these procedures. Overall, this initiative provides a variety of benefits for operators, including savings in the amount of fuel burned and reduced emissions.

The Navigation Procedures Project (NAVLean) will also provide benefits to the GA community. This project restructures and streamlines the instrument flight procedures (IFP) development and implementation process. The IFPs are available to all airspace operators, including the GA community. This initiative benefits all users of the NAS by creating a more efficient and cost-effective process.

QUESTION 2: FAA: Digital Charts: The FAA's decision to begin charging for digital chart products has sparked some concern throughout the general aviation community over the possible cost and safety implications. Does the FAA have a timeline for their proposal and the anticipated cost for these products? Has the FAA looked at how this proposal may impact safety and addressed any concerns to ensure there is no degradation of safety? Has the FAA been working with general aviation stakeholders?

RESPONSE: The Federal Aviation Administration (FAA) has been selling both paper and digital aeronautical charts and products since the Aeronautical Charting Program was transferred to the FAA from the National Oceanic and Atmospheric Administration in October 2000. Aeronautical charts and related products have been fee-based by legislation since their inception in 1926.

With the growth of the internet and advances in personal computing devices, pilots have relied increasingly on digital aeronautical products rather than traditional paper charts. The FAA digital products are being replicated and resold without authorization. In some cases, this is done in a way that does not preserve the integrity of the original product, which creates potential risk to aviation safety. In addition, FAA's cost recovery for digital products has not kept pace with changing technology.

In late 2011, FAA developed a draft proposal to address security, safety, and cost recovery issues for paper and digital electronic products. The FAA's AeroNav Products Directorate hosted a session with authorized aeronautical chart agents, application developers, and representative stakeholder groups (e.g., National Business Aviation Association, Aircraft Owners and Pilots Association, and the General Aviation Manufacturers Association) on December 13, 2011, to discuss the proposal and to gather comments and ideas which will be incorporated in the final proposal.

The FAA is now verifying costs and pricing to help develop a final proposal. Once complete, FAA will publish the final proposal to ask for comments and to address any additional concerns and questions. The FAA has not set any dates to publish the final proposal or a timeline for implementation.

The proposal will address both safety and cost concerns, ensuring that pilots receive safe and accurate navigation products.

QUESTION 3: FRA: Your staff members have indicated publicly that FRA has 11 resources dedicated to PTC. How do you keep an accurate gauge of the relative progress of the nearly 40 railroads that are implementing PTC? And, can you explain the allocation of those 11 resources and how that will enable you to timely and thoroughly review the upcoming Safety Plan submissions which will be submitted by each of those nearly 40 railroads and which I understand are several thousand pages each?

RESPONSE: Working under the Signal and Train Control division (S&TC), FRA's PTC Branch is dedicated to PTC-related document review and system development, field testing, and implementation oversight. The PTC Branch consists of a supervisory specialist (Branch Chief), two senior specialists (east and west), and one PTC regional specialist located in each of FRA's eight regions. All of the members of the PTC Branch staff are geographically located in or near major city areas with PTC emphasis.

For the purpose of managing and tracking any PTC-related document submissions along with general status pertaining to PTC system development, installation, field testing, and implementation, the two senior specialists are specifically assigned direct oversight of a portion of the seven Class I railroads, with the eight regional specialists assigned similar responsibility for the respective geographically located Class IIs, IIIs, and commuter rail operations. Seven additional staff including the Signal and Train Control (S&TC) Division staff director, three of the five staff specialists of this Division, and three other headquarters staff personnel all assist in the review of PTC-related document submissions, and other PTC-related oversight.

To streamline the document review time, FRA staff conducts a stepped approach review so that FRA staff can provide comments/suggestions before the final full document submission is complete. This allows early interaction with the railroad's plans and feedback on their intentions. In addition to reviewing both formal and informal submissions, the PTC branch specialists also provide direct oversight of selected safety critical testing associated with the railroad specific PTC system deployments. Both the PTC Branch Chief and S&TC Division Staff Director are carefully monitoring the individual specialists testing and document review workload, and have the ability to realign resources as needed.

QUESTION 4: FRA: You've discussed the status of the "final" rule which implements PTC. As I understand it, the first iteration of that rule was published some 15 months (Jan 2010) after the RSIA legislation was enacted (October 2008), has been amended at least once, and is in the process of two more substantive rulemaking amendments, the last of which likely won't be published until early 2013, making compliance by the industry much more difficult. In light of these delays, is it reasonable to hold the railroad industry to a date certain for PTC implementation when it has taken the FRA nearly 5 years to provide the regulatory recipe for PTC?

RESPONSE: There are several technical and programmatic issues to consider for the rulemaking on positive train control including industry and other stakeholder comments and public hearings. FRA's Railroad Safety Advisory Committee (RSAC) provided advice and recommendations on implementing regulations prior to a final rule on January 15, 2010. Clarifying amendments were published on September 27, 2010 and another notice of proposed rulemaking (NPRM) for further rule amendments was issued on August 24, 2011. The subsequent final rule is expected to be published this summer. These clarifications and amendments following the January 2010 rulemaking allow railroads to complete installation of systems sooner and at a lower cost by allowing them to install PTC on fewer rail lines and locomotives. Generally, these rule amendments are responsive to specific requests made by the rail industry for regulatory relief.

Questions from Congressman Frank R. Wolf

QUESTION 1: Mr. Huerta: As you know, Washington Dulles International Airport now has three parallel runways. I believe that several years ago the FAA initiated an effort to improve the efficient use of parallel approaches at San Francisco and perhaps at other locations. Can you tell me what the FAA is doing to similarly provide for safe triple simultaneous parallel approaches at Dulles?

RESPONSE: Washington Dulles International Airport is configured with three (3) parallel runways with the capability of triple simultaneous approaches. Existing provisions in FAA orders support the use of this configuration. However, Washington Dulles International Airport meets its current volume demand without the need for operating triple approach procedures.

QUESTION 2: Mr. Huerta: This subcommittee has worked with the FAA over the years on the deployment of Airport Surface Detection Equipment (ASDE-X) systems at airports around the nation in an effort to improve safety and efficiencies on the airfield. I understand that the FAA supported surface surveillance in the non-movement area at JFK. Can you tell me when the FAA will support non-movement area coverage at Washington Dulles?

RESPONSE: The non-movement area (NMA) surveillance installation at JFK served as a prototype to understand issues associated with government-provided NMA surveillance systems. These issues include technical integration with ASDE-X, data security, and policy issues that must be addressed prior to a full-scale deployment. In addition, FAA is evaluating the benefits and radio spectrum impacts of FAA-funded infrastructure to provide surface surveillance coverage in the NMAs of the nation's largest airports in response to the NextGen Mid-Term Implementation Task Force (RTCA Task Force 5).

Initial benefit analyses show that commercial airlines receive over 90 percent of the monetary benefits expected to be realized from the installation of non-movement area surveillance coverage. These benefits are accrued through reduced taxi times in the NMA and not from direct air traffic control (ATC) interaction. Some of the major airlines recognized the benefits of NMA surveillance coverage and, in cooperation with airport operators, invested in their own NMA surveillance systems at busy US airports, such as Atlanta Hartsfield (ATL), Denver (DEN), Detroit (DTW), Newark Liberty (EWR), George Bush Intercontinental/Houston (IAH), and Minneapolis-St Paul (MSP). These airline-sponsored installations are independent of the FAA's ongoing evaluation, and do not have the previously-mentioned pre-deployment issues associated with them.

Questions from Congressman Steve Womack

QUESTION 1: New iPhone and iPad applications, or "Apps," that provide vital aviation maps for pilots are now available. This is a quicker, easier, and lighter system that provides pilots with a substitute to physical maps that is independent of their own in-flight navigation system, and can be used even in the event of a power failure. Until recently, the maps generated by these programs have been taken from government websites that supply maps, free of charge, to the general public. Now the small businesses that have created these programs have been told by the Federal Aviation Administration (FAA) that they could possibly face fees upward of $750,000 per year to obtain these same maps.

Why is the FAA suddenly charging a huge amount for previously public information, in light of the fact that this technology may be life-saving?

Will this be used as a way to make up budget shortfalls elsewhere?

And how can this burdensome charge be justified in light of the fact that the FAA prides itself on inter-agency technological innovation such as NextGen?

RESPONSE: The Federal Aviation Administration (FAA) has been selling both paper and digital aeronautical charts and products since the Aeronautical Charting Program was transferred to the FAA from the National Oceanic and Atmospheric Administration in October 2000. Aeronautical charts and related products have been fee-based by legislation since their inception in 1926.

With the growth of the internet and advances in personal computing devices, pilots have relied increasingly on digital aeronautical products rather than traditional paper charts. The FAA digital products are being replicated and resold without authorization. In some cases, this is done in a way that does not preserve the integrity of the original product, which creates potential risk to aviation safety. In addition, FAA's cost recovery for digital products has not kept pace with changing technology.

In late 2011, FAA developed a draft proposal to address security, safety, and cost recovery issues for paper and digital electronic products. The FAA's AeroNav Products Directorate hosted a session with authorized aeronautical chart agents, application developers, and representative stakeholder groups (e.g., National Business Aviation Association, Aircraft Owners and Pilots Association, and the General Aviation Manufacturers Association) on December 13, 2011, to discuss the proposal and to gather comments and ideas which will be incorporated in the final proposal.

The FAA is now verifying costs and pricing to help develop a final proposal. Once complete, FAA will publish the final proposal to ask for comments and to address any additional concerns and questions. The FAA has not set any dates to publish the final proposal or a timeline for implementation.

The proposal will address both safety and cost concerns, ensuring that pilots receive safe and accurate navigation products.

Questions from Congressman Yoder

Instrument landing systems

QUESTION 1: "The Federal Aviation Administration has requested $7 million in its 2013 budget request to field new Instrument Landing Systems (ILS). Since FY 2005, Congress appropriated more than $113 million for ILS and FAA has failed to place into service a single new ILS system, as the selected vendor's system has been in testing since 2006. Further, the FAA has access to a second vendor whose ILS system is already certified for operation in the National Airspace System (NAS), and agreed to test that system to ensure a second qualified vendor, but has not yet established the criteria required to complete this objective. Would you please identify the steps to streamline the test process in order to aggressively move forward on the deployment of this equipment?"

RESPONSE: The FAA has over 1,200 Instrument Landing Systems (ILS) in the National Airspace System (NAS). Fifty-eight (58) of these systems were established since 2005. Another fifty-four (54) systems were installed to replace older MK-1D and MK-1E ILS equipment with over twenty-five (25) years of service. Additionally, FAA recently received 40-plus systems to replace existing equipment over the next two years. The cost to sustain/replace a full ILS averages $1.2 million, while establishing a new ILS typically costs at least $2.0 million because of site environmental considerations.

The FAA currently has only one (1) approved system for Category II/III ILSs, the MK-20A. The FAA is evaluating a replacement system, the ILS-420, which is currently undergoing testing that includes a faultless 4,000 hour continuity of service test. Successful completion of this test is planned for the fall of 2012, with an In-Service-Decision expected in March 2013. System production will begin immediately thereafter.

In the event that ILS-420 testing is unsuccessful, FAA purchased one (1) new ILS system (2100 series) for testing to evaluate its use as an alternative source for sustainment of Category I requirements.

Testing of the 2100 series ILS will begin in June 2012, with an assessment expected to be completed in February 2013. Once the technical evaluation is completed, the test report will be shared with the manufacturer. The test process will be conducted according to the established test plan and test procedure, and cannot be streamlined.

THURSDAY, MARCH 29, 2012.

HUD AND DOT MANAGEMENT ISSUES

WITNESSES

HON. CALVIN L. SCOVEL III, INSPECTOR GENERAL, U.S. DEPARTMENT OF TRANSPORTATION

HON. DAVID A. MONTOYA, INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PHILLIP R. HERR, MANAGING DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

MATHEW J. SCIRE, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

VALERIE C. MELVIN, DIRECTOR, INFORMATION MANAGEMENT AND TECHNOLOGY RESOURCES ISSUES, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Mr. LATHAM. Let's call the hearing to order.

As you are probably well aware, we are going to have some votes that will interrupt us today, so, we may want you to shorten your opening statements.

Today, we welcome HUD's Inspector General, David Montoya; DOT's Inspector General, Calvin Scovel; Matthew Scire, GAO's Director for Financial Markets and Community Investment; Valerie Melvin, GAO's Director for Information Management and Technology Resources; and Phillip Herr, GAO's Director for Physical Infrastructure.

This subcommittee looks to your offices to help us conduct critical oversight to ensure our tax dollars are well spent and actually go to meet our Nation's housing and transportation needs. This oversight is even more important at a time when we must shrink the Federal budget and deal with our mounting debt. Waste, fraud, and abuse should never be tolerated, but this is especially true in today's budget climate.

We look forward to your testimony, and we will look closely at your work as we make the tough decisions that will be required as we put together this year's Transportation-HUD funding bill. This is our last subcommittee hearing for fiscal year 2013, so we will soon be writing our bill with the hope that the authorizers finish their work and make it to conference with the Senate by September.

I would ask each of you to limit yourselves to 2 or 3 minutes, whatever you can do.

And, with that, I would like to recognize the distinguished ranking member, Mr. Olver, for our last hearing—and his last hearing.

Mr. OLVER. I am looking forward to it.

Mr. LATHAM. Oh, come on.

Mr. OLVER. Our last hearing.

Well, thank you, Mr. Chairman.

It is a pleasure to speak with all of you today. Your organizations play a key role in supporting this subcommittee's oversight of the Department of Transportation and the Department of Housing and Urban Development, and we greatly respect the work that you do. This is especially true this year, as our accelerated schedule has limited the number of oversight hearings that will be held, making your work particularly informative. For this reason, I thank you for instilling within your respective organizations a culture that facilitates open communication and cooperation between our staffs.

I would also like to commend the Chairman for holding this hearing and continuing the practice of holding the hearing with GAO and the respective IGs during each Congress. We started this practice in 2007 when I was Chairman of the subcommittee, and I believe it has been very valuable. I hope it continues after I leave.

Thank you, Mr. Chairman. I yield back.

Mr. LATHAM. Thank you, Mr. Olver.

We will begin with HUD's Inspector General, Mr. Montoya. Your full written statement will be included in the record, but you are recognized.

Mr. MONTOYA. Good morning, sir. Thank you.

Chairman Latham, Ranking Member Olver, and members of the subcommittee, I am David Montoya, the Inspector General for the Department of Housing and Urban Development. Thank you for the opportunity today to discuss HUD's management challenges. It is my first opportunity to testify before this subcommittee, and I thank you.

Since becoming the Inspector General 4 months ago, I have personally met with Secretary Donovan and his Assistant Secretaries on a regular basis. These meetings have been honest and open dialogues about the many management challenges that they face, and I find the Secretary to be genuine in his interest in addressing many of the issues that you will see in my written testimony in detail.

Certainly one of the top management challenges for the Department is maintaining the health of the FHA's Mutual Mortgage Insurance Fund, and my office continues to be concerned the FHA fund has not been able to obtain the capital reserve ratio of 2 percent for the past 3 years. While we commend the Department for taking action to address the Fund's finances, we remain concerned that these actions may not be enough to make up for the losses.

The other major area for the Department is within the HOME program, the largest Federal block grant to State and local governments for affordable housing. Our previous external audit work focused on high-risk grantees. We have commonly found a lack of adequate controls. While HUD focuses its monitoring activities at the grantee level through its field offices, grantees, in turn, are responsible for monitoring their subgrantees, and we have found on many occasions that little or no monitoring is occurring.

My office is firmly committed to working with the Department and the Congress to make sure that HUD's important programs operate effectively for the benefit of all American taxpayers now and into the future.

Again, I thank you for the opportunity to speak to you this morning, and I am willing to answer any questions you may have.

[The information follows:]

Testimony before the U.S. House of Representatives
Committee on Appropriations
Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies

"HUD Management Issues"

Testimony of
The Honorable David A. Montoya
Inspector General
Office of Inspector General
U.S. Department of Housing and Urban Development

March 29, 2012
10:00 a.m. Rayburn House Office Building, Room 2358A

Chairman Latham and Ranking Member Olver, and Members of the Subcommittee, I am David Montoya, Inspector General at the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG). I thank you for the opportunity to discuss oversight of HUD's programs.

I want to acknowledge that since becoming the Inspector General on December 1, 2011, I have met with Secretary Donovan on a regular basis. I have had open and honest dialogues with him on the management challenges the Department faces and the work my office has done to bring these matters to the Secretary's attention. He has demonstrated a genuine interest and concern in addressing the issues I am about to speak of, and has shown through action the value he places on my office's work products. I have also met with each of his Assistant Secretaries and the Acting Deputy Secretary on their program's areas of concern. There appears to me to be a concerted effort on all of their part to review with vigor our recommendations and to engage my office on these management challenges.

There could be no better example of a Department and an Office of Inspector General working collaboratively for the overall health of an organization than the historical result we achieved in the recent national mortgage settlement of more than $25 billion - the largest consumer financial protection settlement in U.S. history. This settlement showcases the accomplishments that we have jointly undertaken.

HUD-OIG Internal Restructuring

As Inspector General, I take my oversight, independence, and accountability roles seriously. One of the first initiatives I have taken during the four months I have had this position, is to carefully assess my own organization to ensure that my offices and staff are operating as efficiently and effectively as possible. Some of the steps I have taken include carefully reviewing Committee report language expressing concerns about our field office locations. In conducting my assessment I have also appreciated the feedback from the Department and our stakeholders. We have focused on ways to make our organization leaner. As a result, we have realigned our Office of Audit and Office of Investigation to more efficiently focus staff where HUD program dollars are disbursed, to address Congressional mandates to reduce offices where possible, and to respond to the Congressional request for my office to issue products that address systemic concerns within the Department. This internal restructuring of my office has resulted in streamlining which includes consolidating six regions in the Office of Investigation and two in the Office of Audit, and closing or canceling the opening of seven offices. Additionally, since I have been on board, we have reduced our staffing level by 57 through attrition and buyouts and reduced the number of managers. I will continue to reassess and realign the limited resources entrusted to me to ensure that my organization is prepared to meet the challenges of the 21st century, and have a meaningful impact on the Department's ability to accomplish its mission.

Financial Health of the FHA Insurance Fund

The Mutual Mortgage Insurance (MMI) Fund is the largest of the Federal Housing Administration's (FHA) four mortgage insurance funds. The Fund consists of a system of accounts used to manage FHA's single-family mortgage insurance programs. The Cranston-Gonzalez National Affordable Housing Act of 1990 mandated that the MMI Fund maintain a capital ratio of two-percent from October 1, 2000 forward. The capital ratio is defined as the ratio of the Fund's economic value to its insurance-in-force. The economic value essentially represents capital that is in excess of the amount needed to cover anticipated losses. The capital ratio has been below this required two percent level for the past three years, and each year has seen a further decline in the ratio to the point where, based on the latest actuarial study in November of last year, the ratio was barely positive. FHA has increased premiums and taken other steps to restore the financial health of the Fund.

The Department is committed to holding lenders accountable for actions that violate FHA requirements which subject the Fund to increased risk. In that regard, my office was proud to play a role in the recently announced settlements with five of the nation's largest lenders for their reported violations of foreclosure requirements. Working closely with HUD and the Department of Justice, we reviewed the foreclosure and servicing practices at five participating FHA servicers and found that the lenders were engaged in widespread questionable foreclosure practices involving the use of foreclosure "mills" and a practice known as "robosigning" of sworn documents in thousands of foreclosures throughout the United States. The Department of Justice used our review and analysis in negotiating a settlement agreement with the lenders. On February 9, 2012, the Department of Justice and 49 state Attorneys General announced the $25 billion settlement. As part of the proposed settlement agreement, the MMI fund will be bolstered by $900 million being paid by the banks to the Fund. I note that if not for the foundational work of my staff, this infusion may never have occurred.

While I commend the Department for taking action to address the Fund's finances, we remain concerned about whether the actions are enough to make up for the losses FHA has sustained and to reach the required two-percent level in a timely manner. For example, FHA is now using credit scores as part of the eligibility requirements for FHA loans. As of October 2010, borrowers with credit scores below 500 are no longer eligible for FHA insurance, and the maximum loan-to-value ratio for borrowers with credit scores between 500 and 579 is 90 percent. At the time these changes were being proposed, we expressed our overall support, but also took the position that the changes did not go far enough and would likely have minimal impact on the MMI Fund in terms of bringing in additional premiums. Loans for borrowers with credit scores below 580 were less than one percent of new activity. Moreover, the 580 credit score threshold is well into what is traditionally considered subprime territory in the conventional marketplace with 620 being the usual demarcation for subprime. A higher down payment requirement at the 620 level

would force borrowers to have more "skin in the game" and would have a more meaningful impact due to the larger volume of loans at this level. Our suggestion, however, has not been endorsed by the Department.

The foreclosure problems at the major lenders have led to a backlog in claims because the loans are still in foreclosure pipelines. In many cases, foreclosure actions have already taken place but insurance claims have not been filed because of challenges to the legal sufficiency of the foreclosure actions. With the conclusion of the $25 billion mortgage settlement involving the five lenders, FHA expects that lenders will file these backlogged clams.

While FHA generally is legally obligated to pay these claims, our concern is that many of these claims are from loans that were improperly underwritten. We have a long standing open audit recommendation for FHA to implement a process to routinely review paid claims and recoup losses on such loans. An additional option could be for FHA to follow some of the practices of the private sector mortgage insurers who routinely review loans in the foreclosure process and thus prevent paying claims for loans that failed to follow mortgage underwriting requirements. While we recognize the differences in the insurance programs and FHA's inherent legal constraints, there is something to be learned from mitigating one's losses before they go to claim status.

FHA's current losses are primarily from loans made prior to 2009, and FHA continues to project that the current and future years' books of business will be profitable and make up for these past years' losses. However, what we have seen in the past three years is a troubling trend whereby the point at which the Fund is expected to reach its mandated capital level is pushed farther into the future. In the fiscal year 2009 independent actuarial study, it was predicted that by the end of fiscal year 2011, the MMI Fund's capital ratio would be 1.74 percent, and that the Fund would meet the two-percent mandate sometime during fiscal year 2012. In the following two years, that forecast has changed dramatically as the capital ratio has moved in the wrong direction, and is now barely positive. The President's fiscal year 2013 budget now projects that the Fund's reserves will not start growing until 2013, and that the capital ratio will not reach the two-percent level until 2015. Moreover, these estimates are heavily influenced by the pace at which housing prices will recover. Any additional slowdown in our nation's housing market will increase FHA losses and further delay FHA's ability to meet its statutorily-mandated two-percent requirement. We continue to work with FHA to ensure that they are instituting sound risk management and lender oversight practices.

In the wake of the many foreclosures, and other concerns about our nation's housing market, we have joined forces with three other Inspectors General who oversee federal Departments that play significant roles in supporting housing in the United States: the Federal Housing Finance Agency, the Department of Agriculture, and the Department of Veterans Affairs. We are working collaboratively to address fraud, waste, and abuse in federal single-family mortgage programs. For example, we developed a compendium of single-family mortgage programs to

serve as a guide to federal housing programs and to activities of each of the Inspectors General involved. We are also combining forces to map the location of foreclosed real-estate-owned properties under the jurisdiction of the four OIGs to better identify suspicious transactions and to target our resources in addressing any fraud that may occur.

Financial Management Systems

Since fiscal year 1991, the OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and the Government National Mortgage Association (Ginnie Mae) and addressing most of the previous weaknesses that the OIG identified. These improvements enabled us to reclassify our audit findings relative to financial management system requirements from a "material weakness" to a less severe "significant deficiency."

The latest contract to modernize HUD's financial management systems, HUD Integrated Financial Management Improvement Project (HIFMIP), was awarded on September 23, 2010. The original scope of HIFMIP was to encompass all of HUD's financial systems, including those supporting FHA and Ginnie Mae. However, the inclusion of the FHA and Ginnie Mae portions was put on hold as a result of review by OMB. HIFMIP was originally launched in fiscal year 2003 and was to have begun implementation of HUD's core financial system in fiscal year 2006. With the award of the latest contract, HUD anticipated implementation of phase one of the project in time to have all of fiscal year 2012 financial data within the new system. However, we remain concerned about the successful execution and completion of HIFMIP. The "go live" date for the integrated core financial system was revised from March to May 15, 2012. Disagreements between HUD and the HIFMIP contractor with regard to interpretation of key contract provisions could further delay the project. HUD convened an independent assessment team, composed of subject matter experts from multiple government agencies, to rapidly evaluate the status of HIFMIP.

We are also concerned that completion of the first phase of HIFMIP will still not result in a truly integrated core financial system. We have reported the lack of an integrated core financial system as a significant deficiency in our financial statement audits for the past several years. HUD uses five separate financial management systems to accomplish the core financial system functions. However, the first phase of HIFMIP will only replace two of these systems, resulting in the creation of the new integrated core financial system. It is not clear how this new system will lessen the dependency on, and integrate with, the other three core financial systems nor is it clear how completion of this first phase will reduce or eliminate the manual processing necessary to generate HUD's consolidated financial statements. In the meantime, we continue to note the following weaknesses with HUD's financial management systems:

- HUD requires extensive compensating procedures to prepare financial statements and other financial information.
- HUD has limited availability of information to assist management in effectively managing operations on a day-to-day basis.

FHA's business has increased dramatically over the past few years as a result of the mortgage crisis. FHA's insured portfolio of more than 7.4 million traditional and one-half million reverse single-family mortgages is worth well over $1 trillion. The shortcomings of the current Information Technology (IT) systems and the lack of systems capabilities and automation in critical areas of the business are challenging FHA's ability to proficiently respond to changes in the market and to evaluate its business processes. In August 2009, FHA completed the IT Strategy and Improvement Plan, which identifies FHA's priorities for IT transformation. The plan identifies 25 initiatives to address specific FHA lines of business needs. Initiatives are prioritized, with the top five being single-family related. The plan also calls for FHA to create a program management office to facilitate coordination and communication, track and report progress, provide support to managers, and support organizational change management activities. FHA currently has eight active transformation projects underway with key deliverables planned throughout the remainder of the 2012 calendar year. The Lender Electronic Application Portal is scheduled to go live in April 2012. However, budget constraints continue to limit progress with these initiatives.

Another information technology concern is the ability to replace the antiquated infrastructure on which HUD and FHA applications reside in a timely manner. Workloads have dramatically increased and are processing on systems that are 15 to 30 years old and have exceeded their reasonable service life and cannot effectively support the current market conditions and volume of workloads. The use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized, it will become increasingly difficult to maintain operations, make legislative system modifications, and develop or maintain required interfaces to other IT systems, leaving the systems environment at risk. For example, the technology acquired by FHA 15-30 years ago includes COBOL applications still in use today. This limits FHA's ability to integrate newer technologies that are widely used in the financial industry, or even to develop modern data interfaces to lender and other Departmental IT systems. Software and hardware technology of that era now constrains FHA's ability to implement system modifications in response to legislative changes.

We continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption. Of particular concern is the Integrated Disbursement and Information System (IDIS), which supports HUD's Office of Community Planning and Development's formula grant programs, including the Community Development Block Grant and HOME programs. HUD's design and implementation of IDIS, we believe, is

not in compliance with Federal financial management system requirements. The system arbitrarily liquidates obligations on a "first-in-first-out" basis, irrespective of the budget fiscal year funding source and intentionally decreases the amounts that HUD would be required to return to the U.S. Treasury after the programs' fixed-year appropriations expire. The Department did not agree, and the Government Accountability Office is now reviewing that matter given the potential wide impact to other agencies.

In addition, incompatible functions such as system administration and security administration are not adequately separated, and there is no formal user recertification process to ensure that all users are properly recertified. Moreover, grantees and subgrantees are able to update, change, cancel, reopen, and increase or decrease project funding without review by HUD and self-report on their accomplishments. We have found data integrity issues with the information within IDIS as reported by the grantees and subgrantees, including unsupported contracts, inflated contract amounts, and underreporting of program income. The Department, through its Transformation Initiative is planning enhancements to better manage data quality.

As part of our annual IT security review mandated by the Federal Information Security Management Act (FISMA), we found that the Department continued to make progress on developing an entity-wide information systems security program by developing (1) an incident response and reporting program that was consistent with Federal guidelines, (2) policies and procedures for information security oversight of systems operated on the Department's behalf by contractors, and (3) a system that effectively tracks and monitors the planned actions and milestones for correcting known information security weaknesses. We also found areas that need improvement. Specifically, the Office of Chief Information Officer did not ensure that (1) its remote access procedures were enhanced and its authentication methods strengthened, (2) security training was provided to employees to make them aware of their responsibilities, (3) the disaster recovery portion of HUD's contingency planning program properly tested suitable systems, (4) the continuous monitoring program was established, (5) risk management was completed on an organization level, and (6) the capital planning and investment control process involved all necessary parties throughout the fiscal year.

Human Capital

For many years, one of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices, as evidenced in OIG's September 2008 audit pertaining to HUD's management of human resources. More recently, we reported in January 2011 that HUD was making progress in addressing its hiring process and reduced the average cycle time for hiring employees by about 37 percent between 2008 and 2010. The Department was able to meet the staffing needs of its four Homeownership Centers within the confines of authorized staffing levels. Nevertheless, more needs to be done.

To address its human capital challenge, HUD began a "Human Capital Transformation" initiative in 2010 which noted that the 2009 Federal Human Capital Survey ranked HUD 24th out of the 30 large agencies in the "Best Places to Work in the Federal Government" report. HUD has since slipped to next to last place in the 2010 rankings (31 of 32). The Department contracted with the National Academy of Public Administration (NAPA) in 2012 to consult on this problem. NAPA noted HUD did not engage in any short- or long-term planning to determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department's efforts to address its workforce needs in a strategic and systematic manner.

NAPA recommended that the Department establish an intra-agency team of senior officials from the Chief Financial Officer, the Chief Human Capital Officer, and administrative and budget officials from major program offices to assess the causes of its erratic resource management practices and develop a more timely and predictable staffing process. NAPA recommended that this team lay the groundwork for creating ongoing, agency-wide workforce analysis and planning that is tied to HUD's strategic plan and enhances longer range capability to recruit and sustain a high quality workforce.

In response, HUD included a strategic goal in its Fiscal Year 2010 – 2015 Strategic Plan to transform the way HUD does business. This goal addresses HUD's past history of being viewed by both its employees and external partners as lacking in its ability to provide the support needed to fully deliver on its mission. HUD has developed specific sub-goals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture. I know the Secretary has committed much time and effort to address some of these areas as evidenced by his Town Hall meetings with staff to announce his Changemakers Campaign and Feedback Focus Days to look at ways to improve performance and culture. HUD will measure its progress on its sub-goals by its success in increasing satisfaction ratings from internal and external parties, increased delegation to field offices, reduced number of burdensome regulations and reports, and reduced end-to-end hiring time. We plan to work closely with the Department to help them achieve these goals.

HUD has also begun a workforce needs and allocation study to update its resource estimation and allocation process. The goal is to more effectively support the budget process and assess staffing needs. The Director of Office of Field Policy and Management, personally met with me on this project on February 10th, and I am encouraged that the Department is giving this effort the appropriate high priority and funding. My office will periodically monitor progress as this project moves toward completion.

Procurement and Contract Management

In prior years, we have reported on various concerns relating to HUD's procurement and contract management including HUD's information technology infrastructure contracts and HUD's

transition to the third generation of its management and marketing contracts that are used to manage and dispose of HUD's extensive inventory of foreclosed single-family properties. HUD continues to be challenged by its over-reliance on contractors in general and its ability to allocate sufficient resources to adequately oversee its contractor work force. My office will be taking a closer look at procurement and contract management to ensure that waste, fraud or mismanagement can be identified at its earliest occasion.

Perhaps the greatest area of concern with respect to HUD's procurement and contract management is with the management and marketing of foreclosed FHA single-family properties. HUD's inventory of real estate owned (REO) properties had increased dramatically from about 45,700 properties in March 2010 to nearly 69,000 at the end of March 2011. Since that time, the inventory has been steadily declining and, as of January 2012, stood at about 31,000. While the decline from the historically high levels of last year is a positive trend, the percentage loss on the sale of these properties has been steadily increasing since the nation's housing market collapsed in 2008. This trend has continued for the past year, and for the current fiscal year, losses are averaging about two-thirds of HUD's acquisition cost. In contrast, HUD's average loss during 2007 was about 40 percent. HUD's oversight of these management and marketing contractors will be critical to ensure that returns on property sales are maximized thereby reducing further losses to the FHA insurance fund.

Another area of concern relates to performance-based contracts that have been in place for several years to administer HUD's project-based rental assistance contracts with project owners. We previously reported that HUD did not obtain the best value for the nearly $300 million spent in 2008 on the Project-Based Contract Administrators (PBCA) contracts. In particular, HUD spent $107 million of this amount on incentive fees. While we could not quantify how much of this amount was excessive, HUD continued to pay incentives for tasks that were included in the contractors' basic fees. The current contracts are not cost effective and do not allow HUD to stop paying for services that it no longer requires. HUD has been slow in restructuring these contracts and last year was forced to re-compete most of the contracts after many of the bidders protested the manner in which HUD evaluated the proposals. The competition is ongoing and HUD now anticipates that new agreements will be in place by the end of the fiscal year.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and to public housing agencies (PHAs). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 rental assistance program, Section 202 program for elderly housing, and Section 811 program for housing for persons with disabilities. The subsidies provided through these

programs are called "project-based" subsidies because they are tied to particular properties. Therefore, tenants who move from such properties may lose their rental assistance. The administration's budget request for fiscal year 2013 includes $8.7 billion for project-based rental assistance contracts with project owners. This represents a $640 million decrease from the fiscal year 2012 enacted level. This reduction was achieved by providing less than 12 months of funding upfront on some contracts that straddled fiscal years. While this has caused some concern, we recognize that this decision was a difficult one prompted by the current fiscal challenges.

Nevertheless, this situation will force HUD to maintain continued oversight of this funding stream to ensure that the actual payments to landlords are not reduced or delayed to prevent adverse impact on the families served by the programs. HUD's methodology for reviewing remaining funding on these contracts has steadily improved over the past several years in response to our recommendations from the annual audits of HUD's financial statements. In fiscal year 2011, HUD began reviewing active renewal contracts, in addition to expiring original term and inactive contracts, so that unnecessary funds can be deobligated and used to reduce current year funding requirements. Prior to fiscal year 2010, HUD only reviewed housing assistance payments contracts on an annual basis. In fiscal year 2010, they began quarterly reviews of expiring contracts, and starting in fiscal year 2011, HUD performs monthly reviews for expiring contracts and bi-annual reviews for unexpired but inactive contracts. HUD's improvements should better enable HUD to monitor funding utilization and act more quickly to resolve any anticipated shortfalls.

The Office of Public and Indian Housing provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by more than 4,100 PHAs and provide affordable housing for 1.1 million households through the low-rent public housing program and 2.1 million households through the Housing Choice Voucher program.

We have performed numerous audits of PHA's Housing Choice Voucher program that focused on whether the units met applicable physical quality standards. In response to our audit work in this area, HUD has been working to revise its standards and to develop a uniform inspection protocol to provide for improved oversight of the physical condition of the rental units that are participating on the program.

In another area, earlier this month, we issued our latest audit of HUD's compliance with the reporting requirements of the Improper Payments Information Act of 2002 (IPIA), as amended. In general, HUD's fiscal year 2011 agency financial report and Accountable Official report complied with IPIA, Executive Order 13520, and the Office of Management and Budget (OMB) Circular A-123 implementing guidance. Moreover, HUD's improper payment reduction strategies were progressing in a positive direction. The Accountable Official report provided the plans for 10 supplemental measures developed for reducing and eliminating improper payments

in rental housing assistance programs. The most significant supplemental measures included the detection of tenants' underreported income, the verification of tenants' eligibility, and the detection of deceased tenants. We evaluated each supplemental measure (including supporting documents and reports) and concluded that HUD had internal controls in place to detect and reduce improper payments in its rental assistance programs.

However, the report noted areas where further improvements are needed. HUD's outdated risk assessment process did not fully support its basis for identifying which programs should be included in its erroneous payment study since it did not include a methodology for determining dollar amounts of potential improper payments. We will continue to work with the Department in this critical area.

HOME Program

The HOME program is the largest federal block grant to state and local governments, designed to create affordable housing for low-income households. Because HOME is a formula based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty level, and population in accordance with Census data.

HOME addresses an important need for affordable housing in our country, a need that is increasing in the wake of the economic downturn and high unemployment. However, my office has expressed concerns about the controls, monitoring and information systems related to the HOME program.

Last year, my office testified twice on oversight and fraud issues relating to the HOME program. Our external audit work, which focuses on problem grantees, commonly found the lack of adequate controls. This included issues in subgrantee activities, resale and recapture provisions to enforce HUD's affordability requirements, incorrectly reporting program accomplishments, and incurring ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. Our audits have found that, in some instances, little or no monitoring is occurring, particularly at the subgrantee level.

Another concern we have, as noted earlier, is with IDIS, the system used by HUD to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. HUD also uses the system to generate reports used within and outside HUD, including by the public, participating jurisdictions and the Congress. We believe that with a more robust, up-

to-date information system, HUD would be able to better monitor the HOME program in a more transparent way.

Our work in this program continues and we have been working with the Senate Appropriations Committee staff to help the Department strengthen controls. To its credit, HUD has proposed new rules which, if implemented, should strengthen HUD's future enforcement authority. In response to a Senate request, we examined revisions to these rules. As a result of our review, the Senate Committee included several new requirements in the HOME program that we identified as a priority for mitigating program risk. These include discontinuing or recapturing funds for projects not completed within four years of commitment, instituting new requirements before program funds can be committed to a project to ensure that it is viable and has been properly underwritten, requiring adequate development capacity of community housing development organizations, and requiring that homeownership units that cannot be sold will be available to rent to eligible tenants. The Department has taken steps to improve HOME program management, and my office continues with its oversight work in this area.

Antideficiency Act Violations

For several years, our annual audits of HUD's financial statements have reported issues with HUD's lack of compliance with the Antideficiency Act, which imposes restrictions on the amounts of obligations or expenditures that agencies may make. Our most recent fiscal year 2011 audit found that HUD had not improved its process for conducting, completing, reporting, and closing the investigation of potential violations. None of the six cases identified as a potential deficiency in fiscal year 2009 were reported to the President through OMB, Congress, or GAO as required or were determined not to be a violation. All of these cases were opened in 2008 or earlier, two as far back as 2003. In all six cases, the Department had not completed its review as required.

HUD's Chief Financial Officer is responsible for conducting investigations and reporting on violations of the Antideficiency Act. HUD's continued delay in completing investigations and reporting known violations delays timely correction of violations and imposition of appropriate disciplinary action. Further, our ongoing financial audit for 2012 identified a seventh potential violation with respect to payment of salaries and expenses in excess of authorizations for fiscal year 2011. This issue is a function of HUD having to account separately for budget allocations provided to each of its program areas. Six of the program areas exceeded their allocations. However, overall, HUD did not exceed its total appropriation. The matter is still under review by HUD's CFO staff. The Department has stated to us their recognition that some staff did not have the requisite skill level to manage a pay projection process and that they are implementing new controls for managing the salaries and detailees process along with providing more training for employees.

Conclusion

The Department's role has greatly increased over the last decade as it has had to deal with disasters and economic crises that have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively for the benefit of the American taxpayers now and into the future.

David A. Montoya

HUD Inspector General

Mr. David A. Montoya was sworn in as Inspector General for the U.S. Department of Housing and Urban Development (HUD) on December 1, 2011. The Department's mission "is to create strong, sustainable, inclusive communities and quality affordable homes for all." The mission of the Office of Inspector General for HUD is to promote the integrity, efficiency, and effectiveness of HUD programs in order to assist the Department in meeting its mission. As Inspector General, Mr. Montoya is the senior official responsible for audits, evaluations, investigations, and oversight efforts, relating to HUD's programs and operations.

Mr. Montoya's twenty-four year career has been dedicated to public service focused on law enforcement with over sixteen years of oversight, supervisory and leadership positions including more than ten years experience in the Federal Senior Executive Service and the Postal Career Executive Service. His professional career has demonstrated a rigorous focus on accountability and high ethical standards.

Prior to Mr. Montoya's appointment to HUD, he served as the Executive Special Agent in Charge, Office of Inspector General, U.S. Postal Service (USPS-OIG) from 2005 to 2011 in which he directed the largest USPS-OIG field office. From 2000 to 2005, Mr. Montoya was the Assistant Inspector General for Investigations, Office of Inspector General, Department of the Interior (DOI-OIG), during which time he restructured the Office of Investigations to maximize productivity, and directed DOI-OIG's national law enforcement program which helped to protect America's valuable natural resources and heritage. From 1998 to 2000 Mr. Montoya served as Deputy Director/Director of the Environmental Protection Agency's Criminal Investigation Division in which he provided leadership and direction to a critical national environmental crimes investigations program that protected the health of American citizens and our country's environment.

Mr. Montoya is strongly committed to collaboration with HUD staff and national stakeholders to ensure that the Department's vital programs are being effectively and efficiently implemented. In addition, he is focused on developing analytics for early detection of waste, fraud and mismanagement through strategic utilizations of the OIG's audits, evaluations, reviews and investigations. Mr. Montoya believes fraud prevention is imperative at the front-end, and consistently coveys this message to every OIG employee.

Mr. Montoya is a native of El Paso, Texas and a 1986 graduate of the University of Texas at El Paso. He is married and has two children.

Mr. LATHAM. Very good. Thank you for your brevity.

We will now hear from Mr. Scovel, the DOT's Inspector General.

Mr. SCOVEL. Thank you, Chairman Latham, Ranking Member Olver, members of the subcommittee. Thank you for inviting me here today to discuss DOT's top management challenges.

The Department's 2013 budget requests over $74 billion for a wide range of programs and initiatives. While the Department's efforts clearly demonstrate its commitment to ensure a safe and reliable transportation system, we identified opportunities for DOT to achieve greater efficiencies and improve program outcomes. The nine challenges we reported last September point to the need for effective planning and guidance, a capable workforce, reliable data, an increased oversight, and accountability.

Mr. Chairman, my written statement addresses those four topics in somewhat more detail. I would be happy at this time to yield and to be ready to respond to your questions.

[The information follows:]

Before the Committee on Appropriations
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
United States House of Representatives

For Release on Delivery
Expected at
10:00 a.m. EDT
Thursday
March 29, 2012
CC-2012-017

Top Management Challenges Facing the Department of Transportation

Statement of
The Honorable Calvin L. Scovel III
Inspector General
U.S. Department of Transportation

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss the Department of Transportation's (DOT) top management challenges for fiscal year 2012. We report annually on these challenges, as Congress and the Office of Management and Budget (OMB) require. Our November 2011 report[1] addressed both short- and long-term actions (see exhibit) that DOT should take to ensure transportation safety—DOT's top priority—and maximize investments in transportation. The Department's fiscal year 2013 budget requests over $74 billion for a wide range of programs and initiatives, and we continue to support the Department's efforts through audits and investigations that identify opportunities for program effectiveness and efficiencies and to minimize fraud, waste, and abuse.

My comments today will summarize the Department's top management challenges along three cross-cutting areas: (1) enhancing aviation, surface, and pipeline safety; (2) ensuring effective stewardship of the Department's resources; and (3) effectively implementing transportation infrastructure programs. I will also report on DOT's progress in addressing some of these challenges and conclude with what remains to be done.

SUMMARY

Over the past 2 years, DOT has undertaken several initiatives to help ensure the safety of our Nation's airspace system, highways, railways, bridges, transit systems, and pipelines. In fiscal year 2011, the Federal Aviation Administration (FAA) implemented a system designed to track incidents involving aircraft that breach flight separation standards and to evaluate the risks of these operational errors. FAA has also issued updated regulations on pilot fatigue. The Federal Motor Carrier Safety Administration (FMCSA) issued new regulations to keep unsafe commercial drivers off our roads, while the Federal Highway Administration (FHWA) launched a new bridge oversight initiative to improve States' bridge inspection and maintenance programs. To improve pipeline safety, DOT issued a "Call to Action," challenging the pipeline industry and key regulatory agencies to increase efforts to mitigate pipeline safety risks. Despite these advancements, the Department and its Operating Administrations will need to take a number of actions, many based on recommendations we made, to minimize transportation safety risks.

At the same time, the Department must provide effective stewardship of its financial and information technology resources. DOT must strategically plan and oversee its contracts and adequately prepare the acquisition workforce to ensure projects achieve

[1] OIG Report Number PT-2012-006, "Top Management Challenges for Fiscal Year 2012, Department of Transportation," November 15, 2011. OIG reports and testimonies are available on our website: www.oig.dot.gov.

mission results. Budget constraints and problems with existing projects are forcing the Department to rethink its investments and priorities in important yet costly programs, such as the Next Generation Air Transportation System (NextGen). While NextGen has made important advancements, we noted a number of improvements that are needed, particularly in the management of its contracts. The Department must also ensure that its more than 400 information systems, including air traffic data systems, are secure from unauthorized access and cyber threats.

Finally, the Department must continue to work to ensure the effective implementation of highway, transit, and passenger rail infrastructure programs—including large-scale projects supported by the American Recovery and Reinvestment Act (ARRA). As ARRA funds are expended, the Department may have less Federal funding available to meet growing transportation demands, including addressing the Nation's aging surface infrastructure. The Department will need to closely oversee the completion of ARRA projects to mitigate the risk of fraud, waste, and abuse; apply lessons learned from ARRA; put in place clear goals for the high-speed rail program; and leverage limited Federal transportation resources using innovative credit and financing programs.

ENHANCING AVIATION, SURFACE, AND PIPELINE SAFETY

In 2011, DOT undertook several safety initiatives. These include announcing the update of regulations dealing with pilot fatigue, issuing new regulations to keep unsafe commercial drivers off our roads, launching new bridge safety efforts, and initiating a pipeline safety Call to Action. At the same time, Congress debated the merits of enhancing the Department's role in transit safety. By sustaining focus on these and other important initiatives, DOT can better position itself to ensure the safety of our Nation's airspace system, highways, railways, bridges, transit systems, and pipelines for fiscal year 2012 and beyond.

Ensuring Effective Oversight on Key Initiatives That Can Improve Aviation Safety

The United States continues to operate the world's safest air transportation system. However, our audit and investigation work and recent incidents underscore the need for FAA to take additional actions to improve safety.

A top priority for FAA is to accurately count and identify trends that contribute to operational errors—events where controllers do not maintain safe separation between aircraft. While FAA statistics indicate that operational errors increased by more than 50 percent, from 1,234 in fiscal year 2009 to 1,887 in fiscal year 2010, it is unclear whether this reported increase is due to more operational errors being committed,

improved reporting, or both. According to FAA, the Air Traffic Safety Action Program (ATSAP) has encouraged controllers to report operational errors. However, not all operational errors reported in ATSAP are counted in FAA's reported numbers. Almost one-quarter of the increase can be attributed to the revocation of a separation waiver at the Southern California Terminal Radar Approach Control.[2] Improved radar and voice tools for identifying errors may also have contributed to the increase. In fiscal year 2011, FAA implemented the System Risk Event Rate tool, which is designed to track and evaluate systemwide risk when aircraft fly closer together than separation standards permit. Implementing systems and processes that capture accurate and complete data is critical for FAA to determine the true magnitude of operational errors and to assess their potential safety impacts, identify their root causes, and effectively address and mitigate them.

Addressing pilot training is also critical to strengthening aviation safety. In January 2009, FAA issued a Notice of Proposed Rulemaking for revised crew training that requires use of flight simulators and incorporates special hazard practice training for pilots. However, FAA received extensive industry comments, which primarily opposed the rule's prescriptive training hours rather than basing pilot training on skills most needed to safely perform flight operations. As a result, FAA issued a second proposed rule in May 2011, which requires more thorough ground and flight training for pilots on how to recognize and recover from stalls, as well as remedial training for pilots with performance deficiencies. FAA has not yet issued a final rule on crew training requirements, which was congressionally mandated by October 1, 2011.

In January 2012, FAA updated its flight and duty time regulations for Part 121 air carriers[3] in an effort to better ensure that pilots are rested when they fly. Unlike the old regulations—which included different rest requirements for domestic, international, and unscheduled flights—the new regulations establish one set of rules that are based on scientific factors. However, the regulations do not require air carriers to identify pilots who commute or address issues related to pilot commuting—significant factors that may contribute to fatigue. While FAA considered mandating that pilots arrive in time to receive a pre-flight rest period in the new rule, it stated that the requirement would be difficult to enforce and would not guarantee responsible commuting.

FAA's oversight of aircraft repair stations also remains a concern. Given air carriers' continued reliance on repair stations, it is imperative that FAA provide more rigorous oversight of this industry. According to FAA, there are nearly 4,800 FAA-certificated repair stations worldwide that perform maintenance for U.S. registered aircraft. In response to weaknesses we identified, FAA implemented a new risk-based system to

[2] The waiver allowed aircraft landing simultaneously to be closer than normally allowed. Air Traffic Safety Oversight Service revoked the waiver because it considered it unsafe, and subsequently, reclassified aircraft landings that occurred under the waiver as operational errors.

[3] 14 CFR Part 121, Operating Requirements: Domestic, Flag, and Supplemental Operations

target surveillance efforts to facilities with the greatest risk. Furthermore, our ongoing review indicates that the system is not applied consistently—some inspectors do not use the risk assessment process at all, while other inspectors use it to varying degrees. Our criminal investigations continue to identify significant improprieties committed by repair station personnel, a number of which resulted in the repair or sale of aircraft parts that were certified as airworthy when they were not.

FAA's oversight of aircraft manufacturers has also not been fully effective—due to weaknesses in FAA's Organization Designation Authorization (ODA) program and Risk-Based Resource Targeting (RBRT) system. FAA created ODA in 2005 to standardize its oversight of organizations that supplement FAA's safety inspector and engineer workforce. However, FAA has not adequately trained engineers on their new enforcement responsibilities under ODA, and some FAA certification offices have not effectively tracked or addressed poorly performing ODA personnel. Additionally, a lack of detailed, objective data and technical difficulties has limited RBRT's usefulness in measuring risk and directing FAA engineers' oversight efforts to high-risk projects. FAA is working to improve ODA and RBRT policy, training, and tools to ensure that ODA organizations comply with safety requirements and that the Agency targets its limited engineering resources to the highest risk projects.

To effectively oversee a dynamic aviation industry, it is critical that FAA places its approximate 4,300 safety inspectors where they are most needed. A 2006 National Research Council study conducted at the direction of Congress concluded that FAA's methodology for allocating aviation safety inspector resources was ineffective and recommended that FAA develop a new approach. In response, FAA completed a new staffing model in October 2009. While FAA used the model to support an increase in the number of inspectors for its fiscal year 2012 budget request, it did not fully rely on the number projected by the model. For fiscal year 2013, FAA did not request additional inspectors. FAA is working to further refine the model so that it more effectively identifies the number of inspectors needed and where they should be placed to address the greatest safety risks.

FAA also needs to advance air carrier collaboration and assess the potential safety impacts of code share agreements—where one air carrier sells and issues tickets for flights operated by another carrier. While code share agreements can reduce major carrier costs and enhance customer service, FAA faces challenges in overseeing these agreements. A key concern is that since FAA does not review any domestic code share agreements, the Agency is not aware of whether the performance incentives or penalties in these agreements could result in unintended safety vulnerabilities. FAA's 2009 Call to Action plan for airline safety encourages mainline and regional carriers to collaborate on code share safety programs and mentoring. However, FAA has not issued guidance to operators involved in these arrangements to encourage safety

collaboration. Further, the Department will need to pay closer attention to compliance with code share disclosure requirements.

Finally, continued FAA attention is needed to ensure safety improvements contained in the Airline Safety and FAA Extension Act of 2010 are implemented in a timely and effective manner. The Act contains measures intended to improve safety and address longstanding pilot concerns, such as fatigue, training, and professionalism. In addition to mandating completion dates for pilot training and fatigue rules, the law requires mentoring programs and a more focused FAA approach to increase air carriers' adoption of voluntary safety programs. FAA is also required to establish and maintain a pilot database—including performance records from the Agency and air carriers, and additional records from the National Driver Register—that air carriers must access and review during the pilot hiring process.

Enhancing the Department's Oversight of Surface Safety

Surface transportation safety has improved in recent years—especially as it relates to motor vehicles. From 2005 to 2009, fatalities and injuries related to motor vehicle crashes declined by 22 percent and 18 percent, respectively. Large truck and bus fatalities dropped by 29 percent between 2007 and 2009. To maintain these positive trends, the Department must work with its State and local partners to tackle persistent challenges, build on key initiatives, and address longstanding concerns with motor carrier, vehicle, bridge, and transit safety.

FMCSA is responsible for overseeing over 525,000 active interstate freight and passenger carriers. An important challenge it faces is identifying reincarnated carriers—those who attempt to evade enforcement by obtaining authority to operate as a different entity. FMCSA has taken action to address this issue but needs to refine its existing screening process for detecting reincarnated carriers, and use a risk-based approach to better target its limited resources before expanding the vetting process from passenger and household goods carriers to all new motor carrier applicants.

Another key safety focus for FMCSA is to follow through on its commitment to strengthen the Commercial Driver's License (CDL) program and prevent fraudulently issued CDLs. Our work has shown that FMCSA will be challenged to ensure that States swiftly and effectively implement new regulations for tightening controls over CDL testing that FMCSA issued in 2011. Ongoing testing problems are evident with the recent sentencing of 10 people in Pennsylvania for bypassing CDL regulations and providing false CDLs to more than 400 drivers.

Vehicle defects, particularly unintended acceleration, have brought significant public, media, and congressional attention to the National Highway Traffic Safety Administration's (NHTSA) oversight of vehicle safety. While NHTSA's Office of Defects Investigation (ODI) is well respected internationally, improvements are

needed in ODI's processes for identifying and addressing potential safety defects, assessing staffing needs, staying abreast of new automobile technologies, and sharing and coordinating information with foreign countries. NHTSA responded positively to recommendations we made in 2011 and is taking action to strengthen its processes, workforce, and training program.

The safety of the Nation's bridges is another key focus area. According to the FHWA, about one-fourth of the Nation's more than 600,000 bridges are deficient.[4] However, FHWA has lacked quality inspection data and a risk-based oversight approach to prioritize bridge safety risks. In 2011, FHWA launched an initiative to improve FHWA's oversight of how well States meet National Bridge Inspection Standards and maintain their bridges. If successfully implemented, this initiative should enable FHWA to target higher priority bridge problems using objective data and risk-based metrics, and better monitor States' performance.

Since 2009, rail transit incidents, including the fatal crash here in Washington, D.C., have raised concerns about safety oversight of the Nation's transit systems. The Department's budget requests additional funding to support enhanced Federal rail transit oversight; and the Senate's reauthorization bill includes an expansion of the Department's role in this area. We have identified actions the Federal Transit Administration (FTA) could take to enhance transit safety, such as maximizing the usefulness of current safety data. We have also pointed out challenges FTA would likely face in developing and implementing enhanced rail transit safety oversight, such as establishing national standards across the Nation's diverse transit systems. DOT is facing a similar challenge in implementing new railroad safety regulations under the Rail Safety Improvement Act of 2008.

Ensuring Effective Oversight of Pipeline Safety

The Nation's aging oil and gas pipeline infrastructure is vulnerable to ruptures caused by corrosion and other pipe defects. For example, in 2010, a 54-year old gas pipeline in San Bruno, California, exploded, killing eight people and destroying 38 homes. In the same year, a leaking pipeline spilled nearly a million gallons of crude oil into a tributary of the Kalamazoo River in southwest Michigan. The Pipeline and Hazardous Material Safety Administration (PHMSA) faces several challenges in effectively overseeing pipeline operators and ensuring States carry out their pipeline safety responsibilities.

First, PHMSA must ensure that operators of hazardous liquid, gas transmission, and gas distribution pipelines have sound integrity management (IM) programs for conducting inspections, identifying and repairing defects, and continually evaluating risks to pipeline integrity. The National Transportation Safety Board's (NTSB) investigation of the San Bruno incident raised a number of concerns regarding

[4] Deficient bridges generally refers to bridges that are either structurally deficient or functionally obsolete.

PHMSA's oversight of IM programs and recommended that PHMSA expand the use of IM metrics; validate operator IM data; ensure pipeline operators incorporate leak, failure, and incident data into their risk models; and establish performance goals for operators. NTSB's report also cited the California Public Utilities Commission for failing to detect inadequacies in the Pacific Gas and Electric Company's IM program. Addressing these weaknesses is particularly critical given the recent enactment of Federal pipeline safety rules[5] and the corresponding increases in State oversight responsibilities in high-risk areas. Under the most recent initiative, States will be responsible for overseeing IM programs for almost 1,300 operators of local gas distribution systems—where the highest rates of pipeline-related fatalities and injuries occur. While PHMSA has several efforts under way to enhance its hazardous liquid IM inspection program, such as focusing on the quality and number of field visits, the Agency faces challenges in accomplishing these improvements while meeting its other inspection activities, including pipeline construction and control room management.

Second, PHMSA must ensure State partners effectively execute their regulatory and enforcement responsibilities. State pipeline safety regulators currently oversee about 90 percent of the 2.5 million miles of our Nation's pipeline infrastructure. In 2010, PHMSA distributed more than $30 million in Federal grant funds to encourage States to take on more responsibility for overseeing pipeline safety and to improve performance. Despite these investments, the San Bruno explosion and other recent accidents call into question the effectiveness of these partnerships.

In response to several serious pipeline accidents in 2010 and 2011, Secretary LaHood issued a "Call to Action" for improving pipeline safety. In doing so, the Secretary and the PHMSA Administrator challenged the pipeline industry and key regulatory agencies to increase efforts to identify and repair or replace high-risk pipelines. Of particular concern are pipelines constructed with cast iron, bare steel, and other material that may have a higher risk of leaking or exploding. However, achieving the Secretary's Call to Action will not be easy, largely because PHMSA lacks the authority to require operators to accelerate the repair or replacement of high-risk pipelines; and PHMSA relies heavily on its State pipeline safety partners to oversee much of this work. Given its limited authority and the sizable resources needed to achieve the Call to Action, PHMSA will be significantly challenged to ensure corrective steps are taken and that high-risk pipelines no longer pose a threat.

[5] PHMSA issued two final rules in December 2009 on Gas Distribution Pipeline Integrity Management and Control Room Management, placing additional requirements on pipeline operators.

ENSURING EFFECTIVE STEWARDSHIP OF THE DEPARTMENT'S RESOURCES

The Department has a fundamental responsibility to be an effective steward of its financial and information technology resources, especially at a time when it must confront shrinking budgets and increasing cyber security threats. It faces challenges to strategically plan and oversee acquisitions and adequately prepare its acquisition workforce to ensure projects achieve mission results. Budget constraints and problems with existing projects are forcing the Department to rethink its investments and priorities in programs such as NextGen, a multi-billion, satellite-based air traffic management system. The Department must also ensure that its more than 400 information systems, including air traffic data systems, are secure from inappropriate access and cyber threats.

Strategically Managing the Department's Acquisitions

In fiscal year 2011, the Department obligated approximately $5.8 billion on contracts for goods and services to build and support a transportation system that meets vital national interests. Our audits continue to find weaknesses in how DOT and its Operating Administrations plan, administer, and oversee its contracts and manage its acquisition workforce. These deficiencies challenge DOT's ability to effectively manage its contracts and identify opportunities to improve program performance and save millions in taxpayer dollars.

A lack of planning related to DOT's selection of contract type and resources needed to manage contracts has created cost risks. In 2010, we estimated that DOT paid over $140 million in fees on cost-plus award fee contracts without properly justifying their cost-effectiveness. While these contracts can provide incentives to spur innovation and reduce costs, they require greater agency effort to document contractor performance and mitigate cost risks to the Government. Because FAA is responsible for a significant portion of the Department's contract dollars, it is especially critical for FAA to improve its acquisitions. In 2011, we reported that FAA's sole-source, noncompetitive contract actions—which accounted for over half a billion dollars in fiscal year 2009 obligations—provided little assurance that prices were consistently fair and reasonable for the contracts we reviewed. Further, a lack of fundamental planning to properly design and execute contracts can significantly impact the Department's bottom line—as was the case with FAA's Air Traffic Controller Optimum Training Solution (ATCOTS) Program contract. In 2010, we reported that the contract's costs and fees exceeded baseline estimates by about $46 million (27 percent) for the first 2 years of the contract due to weaknesses in contract design and planning. We recently announced a follow-up audit on FAA's progress to improve management of its ATCOTS contract.

An effective acquisition workforce is also critical to ensure the Department's thousands of complex contracts provide maximum value and benefit. While DOT's Acquisition Workforce Strategic Human Capital Plan sets strategies and goals to increase the capability of the acquisition workforce, DOT has faced challenges in strengthening its acquisition workforce, which has contributed to weaknesses in contract management and administration. For example, according to DOT's Acquisition Workforce Strategic Human Capital Plan, about 63 percent of its contracting employees will be eligible for retirement by 2018. Almost 40 percent of FAA's acquisition workforce will be eligible to retire by the end of 2016. We reported in 2011 that gaps in FAA's acquisition staff hiring and development contributed to poor contract administration on critical FAA programs. To better ensure DOT and its Operating Administrations make wise contracting decisions, the Department issued a DOT Cost-Plus-Award-Fee Contracting Guide in July 2011 and requires acquisition personnel involved with these contracts to be trained. FAA also implemented training on the use of price analysis. However, more training is needed to better develop the acquisition workforce in the current climate of budgetary hiring constraints and the high rate of retirement facing the Department.

A lack of effective data management systems and surveillance exacerbates these weaknesses. Unreliable acquisition data hinder the Department's ability to strategically manage its contracts, meet reporting and transparency requirements, and ensure the billions of dollars it spends on contracting each year are used efficiently and effectively. In 2011, we reported that roughly one-third of the Office of the Secretary of Transportation's (OST) fiscal year 2008 and fiscal year 2009 data in the Governmentwide procurement information system were inaccurate. In some cases, DOT Operating Administrations cannot accurately account for all of their active contracts. While DOT's recent data quality reports to OMB have indicated an improvement, the Department needs to remain vigilant to implement its efforts and controls for improving data accuracy. We will continue to monitor its efforts and validate the data. Weaknesses in contract oversight and surveillance also limit the Department's ability to achieve successful acquisition outcomes. For example, in 2010, we reported that in the first year of its $859 million Air Traffic Controller Optimum Training Solution contract, FAA authorized payment for 11 invoices totaling $45 million without verifying whether the services billed were actually provided.

More vigilant oversight is also needed to detect and prevent grant and procurement fraud, which currently comprises about 50 percent of active OIG investigations. In fiscal year 2011, our investigations of grant and procurement fraud resulted in 41 indictments, 29 convictions, and approximately $280 million in recoveries. DOT's more than $40 billion in ARRA funds awarded to grant recipients heightens the importance of vigilant oversight. However, deficiencies we found in DOT's Suspension and Debarment Program (S&D) limit its ability to safeguard against

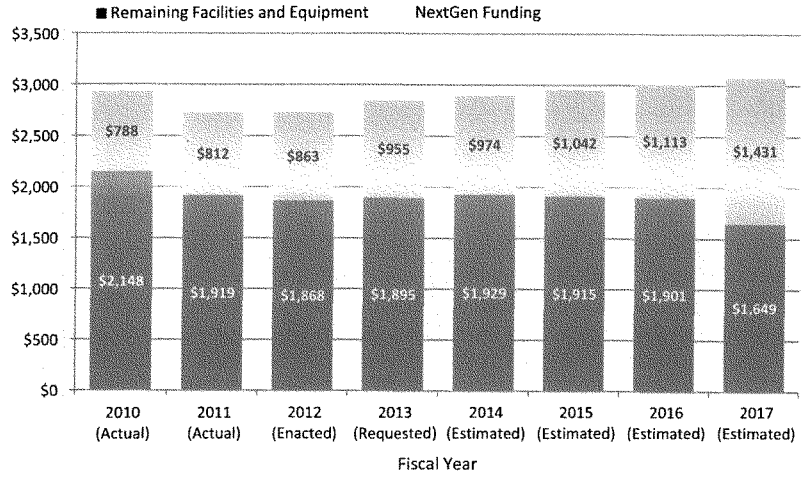
fraudulent actors obtaining DOT contracts or funds. While DOT and FAA have initiated several actions in response to recommendations we made in 2010—such as revising their S&D policies to require timely S&D actions—sustained focus and demonstrated progress in this area are still needed. Until DOT fully implements an efficient and effective S&D Program, it will continue to risk awarding contracts and grants to improper parties.

Finally, to ensure effective stewardship of its contract dollars, DOT needs to place its acquisitions work in a long-term strategic context, elevate the importance of its acquisition function, and institutionalize procurement reforms across the Department. In 2011, we reported that the Office of the Senior Procurement Executive's strategic plan does not link its goals to DOT's strategic plan, and until recently DOT's Senior Procurement Executive did not directly report to the Chief Acquisition Officer as envisioned by major acquisition reform legislation. Organizational weaknesses in DOT Operating Administrations' acquisition functions similarly hinder their ability to serve a strategic role in carrying out agency missions.

Controlling Costs While Advancing NextGen

To control the Department's costs, DOT will need to set realistic plans, budgets, and expectations for NextGen—a complex effort requiring investments from both the Government and the airline industry. A constrained budget and problems with existing projects are forcing FAA to rethink its capital investments and NextGen priorities (see figure 1). Currently, FAA plans to spend almost $5 billion on all NextGen programs between fiscal years 2012 and 2016—a significant investment but billions less than FAA projected a year ago. This adjustment creates significant challenges in sustaining existing projects and facilities while introducing new NextGen-related capabilities.

Figure 1. FAA Capital Funding for Fiscal Years 2010 Through 2017, Dollars in Millions



Source: FAA Budget Documents

FAA's 2011 NextGen implementation plan provides a vision for NextGen from 2015 to 2018 and broadly outlines linkages between FAA and stakeholder investments. However, FAA has yet to make critical decisions that affect near- and long-term goals.

For the near-term, FAA is taking action to address recommendations from a Government-industry task force on NextGen. However, most efforts are still in the planning, study, or design phases, including FAA's 7-year initiative for reducing delays at congested airports in 21 major metropolitan areas.[6] FAA has completed studies at seven locations and has begun design work at six, but it has not established a mechanism to integrate its efforts with other important initiatives, such as improving airport surface operations. Enhancing capacity at congested airports also depends on the timely deployment of more efficient flight procedures. However, as we noted in December 2010, FAA's flight procedures have mostly been overlays of existing routes.

[6] Subsequently, FAA reduced the number of metroplex projects from 21 to 13 by combining some and dropping others because of ongoing airspace and performance-based navigation initiatives. The sites dropped were: New York/Philadelphia, Minneapolis-St. Paul, Seattle, and Las Vegas Valley.

Between fiscal years 2012 and 2016, FAA plans to spend $2.4 billion on NextGen's six transformational programs—including a new satellite-based surveillance system and a new information sharing system—which have complex interdependencies and integration issues with automated systems that controllers rely on to manage traffic and FAA communications networks. However, FAA has not yet developed an integrated master schedule for implementing these programs or established total program costs, schedules, or performance baselines. In addition, FAA's approach of baselining smaller segments of larger programs in an effort to reduce risks in the short-term provides no clear end-state for programs—leaving decisionmakers in Congress and the Department without the information needed to assess NextGen progress, establish priorities, and make necessary tradeoffs between programs. Although FAA recognizes the need for an integrated master schedule to manage NextGen, it remains incomplete.

FAA's long-term goals for NextGen depend on the successful implementation of the En Route Automation Modernization (ERAM) program—a $2.1 billion system for processing flight data. ERAM will replace all existing hardware and software at FAA's facilities that manage high-altitude traffic. Without ERAM, the key benefits of several other programs, such as new satellite-based surveillance systems and data communications for controllers and pilots, will not be possible. However, software-related problems—including incorrect flight data display—have pushed schedules well beyond original completion dates and increased costs by hundreds of millions of dollars. FAA formally rebaselined the program in June 2011 and now plans to complete ERAM in 2014—a slip of 4 years. FAA estimates that delays with ERAM will translate to an additional $330 million to complete deployment. If problems persist, total program cost growth could be as much as $500 million with potential delays stretching to 2016. ERAM delays have required FAA to maintain aging systems longer, reprogram funds from other projects to cover the total cost overruns, and retrain controllers and maintenance technicians who must operate and maintain two different systems.

Improving the Department's Cyber Security

A sound information security program is critical to protect the confidentiality, availability, and integrity of information systems—as well as the significant investments in these systems. DOT's 400-plus information systems—nearly two-thirds of which belong to FAA—represent an annual investment of approximately $3 billion in resources. Last year, we reported that DOT's information security program did not meet key OMB and Federal Information Security Management Act requirements to establish an information security program—one that would protect Agency information and systems from increasingly aggressive and technically proficient cybercriminals. As a result, DOT declared its information security deficiencies a material weakness in its annual assurance statement required by the Federal Managers' Financial Integrity Act. While DOT has made some progress

toward correcting these weaknesses, security deficiencies remain in key control areas, such as contingency planning, software configuration, system controls testing, and network user accounts.

These deficiencies have serious implications for personally identifiable information (PII) and NextGen. To prevent unauthorized access to PII, OMB requires agencies to reduce the volume of and restrict access to information collected and maintained, as well as implement other security controls, such as encryption. In fiscal year 2011, the Department provided plans for reducing PII and the use of Social Security numbers, and is working to establish required privacy protections by 2013. However, until these measures are implemented, the Department's systems remain vulnerable to exploitation. For example, our ongoing audit of the United States Merchant Marine Academy's (USMMA) network identified and exploited a critical vulnerability providing full access to the network, including databases containing sensitive midshipmen information. While USMMA corrected this identified vulnerability, numerous internal administrative and technical control deficiencies that we identified continue to place USMMA data at risk of unauthorized access.

The new technologies that NextGen relies on to achieve its goals—such as satellite-based surveillance technologies for tracking aircraft—could introduce significant cyber security risks. While FAA expects that using commercial products will be less expensive than developing new, FAA-owned software, the Internet Protocol-based commercial products, and Web applications that NextGen relies on are inherently more vulnerable to security risks than FAA's proprietary software. In addition, FAA may have little control over security challenges that could arise in the Automatic Dependent Surveillance-Broadcast (ADS-B) and other systems owned and operated by NextGen contractors.[7] We have already identified weaknesses in FAA's Air Traffic Control System, including an information disclosure vulnerability, insufficient updating of system software, unsupported operating systems, improper network configurations, and communication system vulnerabilities. As FAA develops NextGen, it must continue to protect its current air traffic control and related systems, located at hundreds of operational facilities.

The Department's Office of the Chief Information Officer (OCIO) could do more to guide and oversee Operating Administrations in building and sustaining strong information security practices. In 2011, OCIO revamped its information security policy for all Operating Administrations except OST. However, OCIO has yet to finalize Departmentwide procedural guidance, improve its quality assurance reviews of modal cyber security efforts, and establish an effective means for conducting timely assessments of the Department's cyber security. Until OCIO can better guide and oversee Operating Administrations' information security, the Department cannot

[7] NextGen's ADS-B system is the first operational air traffic control system to be owned and operated by a contractor.

verify that its policy is properly implemented or deploy automated tools to quickly and continuously monitor its cyber security efforts.

Despite its $48 million investment and years of effort, the Department does not have a blueprint for modernizing its information systems in an efficient or secure manner. The purpose of this blueprint, known as enterprise architecture (EA), is to save costs, reduce duplication of systems, identify technology needed to conduct missions, and maximize the benefits of security spending. The Department has been relying on the Operating Administrations to develop their own EAs, but has not provided the necessary policies, procedures, guidance or oversight to direct this effort. In response to an OMB request, the OCIO recently began planning for the development of a Departmentwide EA. However, until these efforts are complete, the Department cannot verify that security needs are efficiently addressed or identify duplicate or unnecessary systems that may exist or occur.

EFFECTIVELY IMPLEMENTING INFRASTRUCTURE PROGRAMS

ARRA provided over $48 billion to support existing highway and transit infrastructure programs, and infused an unprecedented amount of capital into new passenger rail programs. As ARRA funds are expended, the Department may have less Federal funding available to meet growing transportation demands, including addressing the Nation's aging surface infrastructure. To address these infrastructure challenges, the Department will need to closely oversee the completion of ARRA projects, apply lessons learned from ARRA to improve project oversight, put in place clear goals for the high-speed rail program, and leverage limited Federal transportation resources using innovative credit and financing programs.

Ensuring Effective Oversight of ARRA Projects and Applying Related Lessons Learned To Improve DOT's Infrastructure Programs

Since ARRA's enactment in 2009, FHWA and FTA have taken significant actions to oversee ARRA projects but remain challenged to ensure remaining funds are spent appropriately. Lessons learned from ARRA can maximize the Department's efforts to improve key oversight mechanisms and keep projects within budget; on schedule; and free from fraud, waste, and abuse.

As of March 2012, FHWA reported that almost 79 percent of its ARRA-funded projects were completed with 88 percent of funds expended. To oversee ARRA expenditures, FHWA created national review teams, which identified a number of management weaknesses. However, the Agency must follow through to address problems identified by these teams and our audit work—especially those that extend

beyond ARRA. First, FHWA must follow through on promised actions to enhance the States' local public agency (LPA) program, which refers to projects managed by cities, counties, and other local entities. Persistent risks with the program include insufficient State oversight of LPAs, noncompliance with Federal labor requirements, and improper processing of contract changes. In addition, FHWA faces a significant challenge in ensuring that States effectively implement the new value engineering regulations that it recently finalized—5 years after Congress enacted additional value engineering requirements. Opportunities to improve project performance, cost, and quality may be lost for ARRA and non-ARRA projects if FHWA fails to ensure States conduct value engineering studies.

While FTA received a smaller amount of ARRA funds than FHWA, it directed a significant portion of these funds to a number of major projects that require sustained management attention to mitigate further cost and schedule risks. For example, $423 million in ARRA funds were provided to the Fulton Street project in New York, which had experienced significant cost increases and years of delays. FTA increased its project oversight and risk assessments, and implemented robust recovery plans to prevent additional cost increases and delays. However, years of complex work remain, and FTA will need to sustain a high level of oversight to ensure prudent and timely expenditure of ARRA funds.

Vigilant oversight of the Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant Program is also needed to ensure effective execution of these grants, including those funded by ARRA. In February 2010, OST awarded $1.5 billion in ARRA funding for TIGER grants to 51 recipients across the Nation. The program relies heavily on FHWA, FTA, Federal Railroad Administration (FRA), and the Maritime Administration (MARAD) to ensure recipients meet ARRA requirements. While FHWA and FTA have longstanding procedures in place to administer grant programs, FRA and MARAD are still implementing standard oversight practices for grants. Accurate grantee reports, comprehensive risk assessments, and sufficient performance measures are critical for tracking and monitoring individual projects and evaluating the program's impact. Subsequent appropriations[8] have doubled the program's funding, substantially increasing the challenges facing OST and its Operating Administrations in effectively overseeing TIGER projects.

ARRA funding and significant ongoing construction activity emphasize the need for DOT and our office to continue to aggressively pursue counter-fraud efforts. We have worked with DOT to deter fraud schemes through ongoing outreach and targeted assessments of projects with fraud risk indicators, as well as investigated criminal and

[8] In 2010, Congress provided $528 million for 42 capital projects and 33 planning projects. In 2011, it provided $527 million for 46 capital projects. Finally, in 2012, it provided $500 million for capital investments in surface transportation infrastructure.

civil complaints. As of February 29, 2012, we have 66 open ARRA investigations—47 of which the Department of Justice is reviewing for potential prosecution (see table 1).

Table 1. Open Investigations into Allegations of ARRA Fraud, by Operating Administration, as of February 29, 2012

Allegation	FHWA	FAA	FTA	FRA	MARAD	Total
False Statements, Claims, Certifications	15	3	2	1	1	22
Disadvantaged Business Enterprise Fraud	16	4	5	0	0	25
Anti-Trust Violations, Bid-Rigging, Collusion	4	1	0	0	0	5
Embezzlement	0	0	1	0	0	1
Prevailing Wage Violations	8	0	1	0	0	9
ARRA Whistleblower	0	1	0	0	0	1
Corruption*	1	1	0	1	0	3
Total	**44**	**10**	**9**	**2**	**1**	**66**

Source: OIG

* This type of investigation involves allegedly dishonest or fraudulent conduct by individuals who are responsible for overseeing ARRA-funded projects.

These investigations illustrate the need for DOT to take action to deter fraudulent activity on all DOT-funded projects. Our office has provided fraud awareness and prevention presentations to over 20,000 DOT officials, State departments of transportation officials, local transit authority staff, and aviation authorities. However, Operating Administrations' role in outreach is also critical to ensuring recipients of Federal grants and contracts have meaningful ethics programs and sound internal controls.

Defining Clear Goals To Guide FRA in Its Transformation

The 2008 Passenger Rail Investment and Improvement Act (PRIIA) dramatically realigned and expanded FRA's roles and responsibilities. In addition, ARRA infused an unprecedented amount of new capital into new passenger rail programs and drastically accelerated timeframes for implementation. FRA has been challenged to establish specific goals to guide its transformation and measure progress—largely because it has yet to complete a long-range National Rail Plan, as required by PRIIA.

A complete rail plan—one that is consistent with approved State plans—would provide a blueprint for an efficient national system of passenger and freight rail corridors. While FRA issued a Preliminary National Rail Plan and Progress Report—in October 2009 and September 2010, respectively—neither defines specific goals to guide States' intercity passenger rail planning and encourage private sector support of State programs. At the same time, the roles various stakeholders will play in intercity passenger rail remain unclear. FRA recognizes that successful implementation of

high-speed intercity passenger rail requires participation from a number of industry stakeholders—from freight railroads to equipment manufacturers. However, it has not specified what stakeholders' roles will be. Rail industry stakeholders have expressed optimism about increased public investment in intercity passenger rail, but without a complete National Rail Plan there is uncertainty about how effectively private stakeholders can participate in the intercity passenger rail market.

According to FRA staff, the lack of a complete National Rail Plan has also delayed FRA's efforts to develop the PRIIA-mandated schedule for achieving specific, measurable performance goals that include estimated funds and staff resources needed to accomplish each goal. PRIIA requires FRA to submit the schedule to Congress with the President's budget each fiscal year, starting with fiscal year 2010, along with an assessment of progress towards achieving the performance goals. However, FRA has not submitted this schedule or progress assessments to Congress. Completing the schedule could provide the basis for FRA to prioritize its ongoing and outstanding responsibilities, such as completing policies and procedures related to high-speed rail, help allocate resources to accomplish the work planned, and report on progress.

Using Department Credit Programs To Leverage Limited Federal Transportation Infrastructure Resources

The National Surface Transportation Infrastructure Financing Commission estimates that nearly $100 billion in Federal investments is needed annually to preserve and enhance our Nation's surface transportation infrastructure.[9] The Highway Trust Fund (HTF) falls well short of this mark, typically devoting less than $45 billion per year to roadways and transit systems. Moreover, in recent years, HTF receipts have fallen significantly short of HTF outlays. To strengthen the Nation's ability to meet its increasing surface transportation infrastructure needs, the Department must maximize the effectiveness of its credit programs and expand the use of innovative financing techniques such as public private partnerships (PPP), where appropriate.

To date, only a small percentage of authorized funds for the Department's Railroad Rehabilitation and Infrastructure Financing (RRIF), and the Tax-Exempt Private Activity Bond (PAB) credit programs have been used. Since RRIF was established in 1998, FRA has made loans to railroads totaling approximately $1.6 billion—roughly 4.5 percent of RRIF's total authorization of $35 billion. Application costs, which include the credit risk premium (CRP),[10] and lengthy application review periods appear to contribute to RRIF's underutilization. Similarly, the Department's PAB program, established in 2005, has issued only $2.2 billion in bonds to date, or about 15 percent of PAB's total authorization of $15 billion. An additional $4.8 billion has

[9] "Paying Our Way: A New Framework for Transportation Finance, Report of the National Surface Transportation Infrastructure Financing Commission," February 26, 2009.

[10] CRP equals the net present value of expected losses due to default, delinquency, or prepayment. The CRP is based primarily on two factors: the financial viability of the applicant and the value of the collateral provided to secure the debt.

been approved, but not yet issued. Even though the opportunity for low-cost, tax-exempt financing under the PAB credit program is intended to increase private sector investment in transportation infrastructure projects, demand for PAB financing remains relatively low for surface transportation projects. As with RRIF, the upfront costs associated with issuing PABs may be contributing to the program's underutilization.

In addition, MARAD's Title XI Federal Ship Financing Program (Title XI) currently has over $27 million in available appropriations that can be leveraged as much as twentyfold to guarantee more than $500 million in loans. However, Title XI has experienced a number of defaults in recent years, costing the Department roughly $795 million in lost loan guarantees. After our 2003 and 2004 reports[11] outlined concerns about potential increases in defaults due to program administration weaknesses, Congress cut off program funding from fiscal year 2003 through fiscal year 2007. In December 2010, following up on MARAD's implementation of our recommendations arising from prior audits, we continued to raise concerns regarding MARAD's oversight and monitoring of the Title XI program. Improved monitoring by MARAD could result in expanding the use of the program and further leverage Federal support of transportation infrastructure projects.

In contrast, the Transportation Infrastructure Finance and Innovation Act (TIFIA) credit program is oversubscribed. TIFIA provides a platform that combines PPPs with a number of other Federal and State funding sources in a manner that makes PPPs more financially attractive to private investors. Unlike RRIF, the Department can use TIFIA funds to pay 100 percent of CRP—the most significant component of the application cost—associated with TIFIA financing. To date, TIFIA has provided credit assistance of $8.7 billion for 25 highway and transit projects with a total cost of $33 billion. However, 10 years into the program, total credit requests began exceeding annual CRP appropriations. For fiscal year 2012, TIFIA has a backlog of 26 applications for projects totaling $36 billion. Recognizing the significant demand for TIFIA, recent legislative proposals in both the House and Senate version of the next surface transportation authorization included an increase in TIFIA's annual CRP appropriation to $1 billion. To further expand the breadth of the program, the Department is considering allowing applicants to pay the CRP (similar to RRIF), as regulations permit, and thereby alleviate reliance on appropriations. However, the need for upfront capital could deter certain applicants. Increasing TIFIA's program capacity could also strain the administrative resources to monitor and manage the program.

[11] OIG Report Number CR-2003, "Title XI Loan Guarantee Program," March 27, 2003, and OIG Report Number CR-2004-095, "Title XI Loan Guarantee Program," September 28, 2004.

CONCLUSION

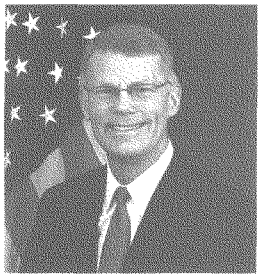
Ensuring the Nation's airspace, highway, rail and transit, and pipeline systems are safe, while maintaining a viable transportation infrastructure and protecting taxpayer dollars from fraud, waste, and abuse is a daunting mission. The Department's many recent and ongoing initiatives clearly demonstrate its commitment to this mission; however, a number of ongoing and emerging management challenges remain. Our individual and cross-cutting work on these challenges helps the Department and Congress identify opportunities for program improvements and cost savings, which is particularly critical in our current budget environment. We appreciate the Subcommittee's support of our office. Without it, we would not have the resources needed to conduct comprehensive oversight of DOT's programs and activities. We work diligently to prioritize and focus OIG's finite resources on areas of high-risk within the Department and of particular interest to Congress. We will continue to work with this Subcommittee on prioritizing the competing demands for our resources and we remain committed to meeting your legislative and oversight priorities.

This concludes my statement. I will be happy to answer any questions you or Members of the Subcommittee may have.

EXHIBIT. DOT'S FISCAL YEAR 2012 TOP MANAGEMENT CHALLENGES

We identified the following nine challenges in our November 15, 2011, report, "Top Management Challenges for Fiscal Year 2012, Department of Transportation."

- Enhancing the Department's Oversight of Highway, Bridge, and Transit Safety
- Ensuring Effective Oversight on Key Initiatives That Can Improve Aviation Safety
- Ensuring Effective Oversight of Hazardous Liquid and Natural Gas Pipeline Safety
- Ensuring Effective Oversight of ARRA Projects and Applying Related Lessons Learned To Improve DOT's Infrastructure Programs
- Managing the Next Generation Air Transportation System Advancement While Controlling Costs
- Managing DOT Acquisitions in a More Strategic Manner To Maximize Limited Resources and Achieve Better Mission Results
- Improving the Department's Cyber Security
- Defining Clear Goals To Guide the Federal Railroad Administration in Its Transformation
- Utilizing Department Credit Programs To Leverage Limited Federal Transportation Infrastructure Resources



Calvin L. Scovel III
Inspector General
U.S. Department of Transportation

Calvin L. Scovel III was sworn in on October 26, 2006 as the sixth Inspector General of the U.S. Department of Transportation (DOT).

The Office of Inspector General (OIG) was established by law in 1978 to provide the Secretary and Congress with independent and objective reviews of the efficiency and effectiveness of DOT operations and programs and to detect and prevent fraud, waste, and abuse. OIG's 400-plus staff works to support DOT's priorities of transportation safety and effective program delivery and performance. Recent audit reports and congressional testimony have addressed DOT's implementation of the American Recovery and Reinvestment Act of 2009; FAA's safety oversight and efforts to develop the Next Generation Air Transportation System; air carriers' outsourcing of aircraft maintenance; rail, pipeline, and commercial vehicle safety; bridge safety and inspections; NAFTA cross-border trucking; Amtrak's operations and budgetary needs; and safety and financing issues in multi-billion dollar highway and transit programs like Boston's Central Artery/Tunnel and the Lower Manhattan recovery project.

Mr. Scovel joined DOT after 29 years of active service in the U.S. Marine Corps, from which he retired as a Brigadier General. His last military assignment was as a senior judge on the U.S. Navy-Marine Corps Court of Criminal Appeals. He previously served as Assistant Judge Advocate General of the Navy for Military Justice, the principal advisor to the Secretary of the Navy and the Judge Advocate General on all criminal justice policy matters. He also commanded a military police battalion that provided security and law enforcement for Marine Corps Base, Quantico, Virginia.

Mr. Scovel served as senior legal advisor for the 4th Marine Expeditionary Brigade, which included all Marine amphibious forces in Operation Desert Storm and later in a NATO exercise above the Arctic Circle in Norway. He had previously served as legal advisor for a Marine amphibious unit deployed to the Western Pacific and Indian Oceans, where it conducted exercises in Hawaii, Japan, the Philippines, Kenya, and Australia.

A Marine judge advocate, Mr. Scovel served as prosecutor, defense counsel, or judge in 250 courts-martial that included charges of murder, rape, child sexual assault, and drug trafficking.

As an adjunct faculty member for the Defense Institute of International Legal Studies, Mr. Scovel led instruction teams in the rule of law and civilian control of the military for senior civilian and military officials in Honduras, Mauritius, Albania, and Serbia. He was in the Pentagon on September 11, 2001. His military awards include the Legion of Merit (four awards) and Combat Action Ribbon.

Mr. Scovel is a recipient of the Secretary's Gold Medal for Outstanding Achievement for his leadership of OIG in supporting DOT's recovery effort after the collapse of the I-35W Bridge in Minneapolis in 2007.

Mr. Scovel received his bachelor's degree from the University of North Carolina at Chapel Hill and his juris doctor degree from Duke University School of Law. He also received a master's degree from the Naval War College.

Mr. Scovel is married and has two sons. Carey is a graduate of Elon University and serves as a police officer in Charlotte, North Carolina. Thomas is a graduate of the U.S. Naval Academy and an officer in the U.S. Marine Corps.

Mr. LATHAM. Thank you very much.

We have a vote on the floor now. So, Mr. Scire, you have drawn the short straw to cover three GAO testimonies in one statement and limit it to about 2 minutes. So, you have got a big job.

Mr. SCIRE. I will try to be brief.

Mr. Chairman, Ranking Member Olver, members of the subcommittee, on behalf of my colleagues, Phil Herr, who represents GAO's team covering transportation issues, and Valerie Melvin, who represents GAO's IT team, thank you for the opportunity to be here today.

Let me begin with a summary of my colleague's statement concerning transportation, starting with funding issues.

Highway Trust Fund revenues are eroding as inflation has decreased the purchasing power of the gasoline tax, and fewer revenues are expected with more-fuel-efficient vehicles. Maintaining current spending levels plus inflation will be a challenge and require $125 billion more revenues than are projected.

There are also several key policy issues concerning surface transportation that need to be addressed, including the Federal role in relation to other levels of government and linking transportation funding to performance.

DOT also faces challenges to improving safety, and my colleague's statement highlights examples from recent reports.

And, finally, we highlight several NextGen management challenges, including delays experienced by 15 programs.

Turning now to HUD, in particular FHA, last fall, HUD reported that the capital ratio used to measure the fund's financial soundness had declined to 0.24 percent, well below the 2 percent minimum, and this is the third year that has happened. We think there is much more that FHA can do to more reliably estimate the fund's financial condition, and I can talk about that.

From a budgetary perspective, this worsening loan performance for FHA has caused increases in estimated costs, including $9 billion for this year alone.

And, as with FHA, Ginnie Mae faces a number of challenges in managing its rapid growth, including limited staff and risk management.

In the technology arena, HUD has been working to modernize its IT systems. It has been working with this committee. We have reported that in 2009 the Department lacked sound management controls, and we also made recommendations that they make improvements in these areas. They have made some progress ensuring that expenditure plans meet conditions required by statute, and the most recent expenditure plans provide better information that is needed for continued oversight.

We look forward to helping the committee in its oversight efforts, and that concludes my remarks. We would be glad to take any questions you have.

[The information follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, March 29, 2012

MORTGAGE FINANCING

FHA and Ginnie Mae Face Risk-Management Challenges

Statement of Mathew J. Scirè, Director
Financial Markets and Community Investment

GAO-12-578T

Highlights of GAO-12-578T, a testimony before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, House of Representatives

March 29, 2012

MORTGAGE FINANCING

FHA and Ginnie Mae Face Risk-Management Challenges

Why GAO Did This Study

In recent years, two components of HUD—FHA and Ginnie Mae—have played a major role in the single-family mortgage market. FHA insures lenders against losses from mortgage defaults. Ginnie Mae guarantees the timely payment of principal and interest for securities backed by federally insured or guaranteed mortgages. Due partly to the contraction of other mortgage market segments, FHA's and Ginnie Mae's business volumes have risen sharply. This growth highlights the need for these entities to properly manage financial risks while meeting the housing needs of borrowers.

This testimony discusses (1) changes in the financial condition of FHA's insurance fund, the budgetary implications of these changes, and how FHA evaluates the fund's financial condition; (2) steps FHA has taken to assess and manage risks; and (3) steps Ginnie Mae has taken to manage risks and estimate costs and revenues.

This testimony draws from GAO reports on FHA's oversight capacity (GAO-12-15), the financial condition of FHA's insurance fund (GAO-10-827R), and Ginnie Mae's risk management (GAO-12-49). GAO also reviewed updated information on the fund's condition as of September 30, 2011.

What GAO Recommends

GAO previously recommended that FHA and Ginnie Mae take additional steps to improve their risk management. FHA and Ginnie Mae agreed with these recommendations and said they had efforts under way to implement them.

View GAO-12-578T. For more information, contact Mathew J. Scire at (202) 512-8678 or scirem@gao.gov.

What GAO Found

For the third consecutive year, the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) reported that the capital ratio for the Mutual Mortgage Insurance Fund—the ratio of the fund's economic value to insurance obligations—has not met the 2 percent statutory minimum. FHA cites declines in the fund's economic value due to higher-than-expected defaults, claims, and losses. At the same time, the other component of the ratio, insurance obligations, grew rapidly. The fund's condition also worsened from a budgetary perspective, with balances in the fund's capital reserve account reaching new lows. If the account were depleted, FHA would require more funds to help cover costs on insurance issued to date. FHA has indicated that it will narrowly avoid this scenario in fiscal year 2012. FHA enhanced methods for assessing the fund's financial condition but has not fully addressed GAO's 2010 recommendation for improving the reliability of its estimates. It relies on a single economic forecast, which does not fully account for variability in future house prices and interest rates. The approach GAO recommended would simulate numerous economic paths for house prices and interest rates would improve the reliability of its capital ratio estimates.

FHA has taken or plans steps to better assess and manage risk. It created a risk office in 2010 and hired a consultant to recommend best practices. FHA plans to establish committees to evaluate risks at enterprise-wide and programmatic levels. It began a quality control initiative for single-family housing, in which program and field offices assess and report on risks, and enhanced lender and appraiser reviews. While FHA's consultant recommended integrating risk assessments, the quality control and risk office activities currently remain separate efforts. Also, since 2009, the Office of Single Family Housing has not updated assessments annually in accordance with HUD guidance. Without integrated and updated risk assessments that identify emerging risks, FHA lacks assurance it has identified all its risks. GAO recommended integrating quality control and risk office activities and updating assessments annually.

GAO and others have identified limited staff, substantial reliance on contractors, and the need for modernized information systems as risks that the Government National Mortgage Association (Ginnie Mae) may face. Ginnie Mae has several planned initiatives to enhance its risk-management processes related to gaps in resources, contracts, and issuers, but these plans have not been fully implemented. It will be important for Ginnie Mae to complete these initiatives as soon as practicable to enhance its operations. Also, in developing inputs and procedures for the model used to forecast costs and revenues, the agency did not consider certain practices identified in guidance for preparing cost estimates of federal credit programs. Ginnie Mae has not developed estimates based on the best available data, performed sensitivity analyses to determine which assumptions have the greatest impact on the model, or documented why it used management assumptions rather than available data. By not fully implementing certain practices, which GAO believes represent sound internal controls for models, Ginnie Mae's model may not use critical data that could affect the agency's ability to provide well-informed budgetary cost estimates and financial statements. GAO recommended that Ginnie Mae adopt these practices.

Chairman Latham, Ranking Member Olver, and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) and Government National Mortgage Association (Ginnie Mae). As you know, FHA insures private lenders against borrower defaults on mortgages that meet FHA criteria. FHA has helped millions of families purchase homes through its single-family mortgage insurance programs and insures almost all of its single-family mortgages under the Mutual Mortgage Insurance Fund (Fund). Ginnie Mae is a wholly owned government corporation in HUD that guarantees the timely payment of principal and interest on securities backed by pools of federally insured or guaranteed mortgages, including FHA-insured mortgages. Ginnie Mae's guarantee of mortgage-backed securities (MBS) helps link capital markets to the nation's housing markets.

FHA and Ginnie Mae have come to play a prominent role in mortgage financing in the wake of the 2007-2009 financial crisis, the housing downturn, and the contraction of the conventional mortgage market. However, FHA reported in November 2011 that, for the third consecutive year, the Fund was not meeting the statutory 2 percent capital reserve requirement, as measured by the Fund's estimated capital ratio—that is, the Fund's economic value divided by the insurance-in-force (outstanding insurance obligations). Although the Fund historically has produced budgetary receipts for the federal government, a weakening in the performance of FHA-insured loans has heightened the possibility that FHA could require additional funds to help cover its costs on insurance issued to date. Although Ginnie Mae has accumulated a capital reserve, the dramatic growth in outstanding Ginnie Mae-guaranteed MBS and the default of a major Ginnie Mae issuer in 2009 also have focused attention on the potential risks Ginnie Mae faces.[1]

[1]In August 2009, Ginnie Mae defaulted Taylor, Bean, and Whitaker Mortgage Corporation and took over the portfolio for approximately $26.2 billion in mortgages. In general, the actual costs of a defaulted portfolio for Ginnie Mae cannot be determined until insurance or guarantee claims are processed and the number of fraudulent or delinquent mortgages determined. However, according to its 2010 financial statements, Ginnie Mae estimated that its portfolio for all defaulted issuers (at that time about $4.5 billion) would result in net costs of $53 million.

My statement today is based on three prior GAO reports: a September 2010 report on FHA's financial condition, and two reports from November 2011—one on FHA's risk assessment and human capital management and one on Ginnie Mae's risk management and cost modeling.[2] Specifically, I will discuss (1) how estimates of the Fund's capital ratio changed in recent years and the budgetary implications of changes in the Fund's financial condition, (2) how FHA and its actuarial review contractor evaluate the financial condition of the Fund, (3) steps FHA has taken to manage and assess risks, and (4) steps Ginnie Mae has taken to manage risks and estimate costs and revenues.

To do this work, we analyzed actuarial reviews of the Fund and federal budget documents, and interviewed FHA officials, staff from FHA's actuarial review contractor, and housing market researchers. We also analyzed data on FHA's business volume, market share, workload, and staff and contractor resources. We reviewed documentation on the proposed structure and functions of FHA's Office of Risk Management and Regulatory Affairs and the Office of Single Family Housing's internal quality control initiative. Further, we reviewed changes to FHA guidance that address risks associated with lenders and appraisers and documentation related to workforce and succession planning. For this testimony, we also reviewed updated information on the Fund's condition as of September 30, 2011. Our study of Ginnie Mae assessed operational risks and financial exposure. We reported on Ginnie Mae volume and market share, reviewed guidance and Ginnie Mae's credit subsidy calculations and estimation model, and interviewed agency officials and others. Our prior reports each include a detailed description of our scope and methodology.

The work on which this statement was based was performed from September 2009 to November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

[2]See GAO, *Mortgage Financing: Opportunities to Enhance Management and Oversight of FHA's Financial Condition*, GAO-10-827R (Washington, D.C.: Sept. 14, 2010); *Federal Housing Administration: Improvements Needed in Risk Assessment and Human Capital Management*, GAO-12-15 (Washington, D.C.: Nov. 7, 2011); and *Ginnie Mae: Risk Management and Cost Modeling Require Continuing Attention*, GAO-12-49 (Washington, D.C.: Nov. 14, 2011).

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Under the Federal Credit Reform Act of 1990 (FCRA), FHA and other federal agencies must estimate the net lifetime costs—known as credit subsidy costs—of their loan insurance or guarantee programs and include the costs to the government in their annual budgets. Credit subsidy costs represent the net present value of expected lifetime cash flows, excluding administrative costs.[3] When estimated cash inflows exceed expected cash outflows, a program is said to have a negative credit subsidy rate and generates offsetting receipts that reduce the federal budget deficit. When the opposite is true, the program is said to have a positive credit subsidy rate—and therefore requires appropriations. Generally, agencies must produce annual updates of their subsidy estimates—reestimates—on the basis of information about actual performance and estimated changes in future loan performance. FCRA recognized the difficulty of making credit subsidy estimates that mirrored actual loan performance and provides permanent and indefinite budget authority for reestimates that reflect increased program costs. Upward reestimates increase the federal budget deficit unless accompanied by reductions in other government spending or an increase in receipts.

The Omnibus Budget Reconciliation Act of 1990 required the HUD Secretary to take steps to ensure that the Fund attained a capital ratio of at least 2 percent by November 2000 and maintained at least a 2 percent ratio at all times thereafter.[4] It also required an annual independent actuarial review of the economic net worth and soundness of the Fund. The annual actuarial review is now a requirement in the Housing and Economic Recovery Act of 2008, which also requires that the HUD Secretary annually report to Congress on the results of the review.

Federal agencies face a number of risks. Agencies with loan insurance programs, such as FHA, face credit risks that include borrower default

[3]For a mortgage insurance program, cash inflows consist primarily of fees and premiums charged to insured borrowers and proceeds from sales of foreclosed properties, and cash outflows consist mostly of payments to lenders to cover the cost of claims.

[4]Pub. L. No. 101-508.

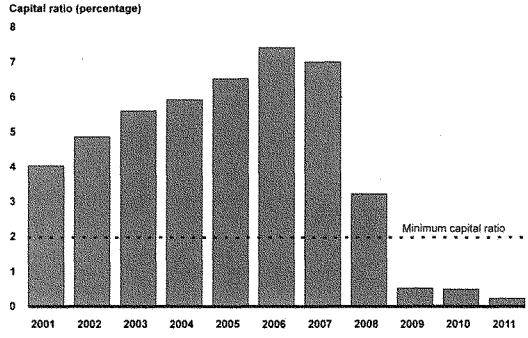
risk, which arises as borrowers become unable to make payments on insured mortgages. Agencies also face counterparty risk. That is, an agency may suffer losses due to weaknesses or uncertainties in the work of its counterparties, which include lenders and appraisers for FHA and issuers for Ginnie Mae. And all agencies face operational risks, the risk of loss resulting from inadequate or failed internal processes, deficiencies in staff numbers, training, and skills, or external events.

The Fund's Financial Condition Has Continued to Worsen, Increasing the Possibility That FHA Will Require Additional Funds

The Fund's capital ratio dropped sharply in 2008 and fell below the statutory minimum in 2009, when economic and market developments created conditions that simultaneously reduced the Fund's economic value (the numerator of the ratio) and increased the insurance-in-force (the denominator of the ratio).[5] According to annual actuarial reviews of the Fund, the capital ratio fell from about 7 percent in 2006 to 3 percent in 2008 and 0.5 percent in 2009 (see fig. 1). For 2010 and 2011, the ratios were 0.5 and 0.24 percent, respectively.

[5]Unless otherwise stated, the years shown are fiscal years.

Figure 1: Estimates of the Fund's Capital Ratio, 2001–2011



Source: GAO analysis of FHA data.

In its November 2011 report to Congress, HUD cited several reasons for the declines from 2010 to 2011. These included the following:

- Home prices were expected to continue falling. Forecasts for the 2010 actuarial study predicted house price declines of about 2.8 percent before bottoming out in the middle of 2011. Forecasts for the 2011 actuarial study predicted declines of 5.6 percent for FHA's single-family portfolio in 2011. Higher-than-expected declines in house values contributed to both higher defaults and claims and higher loss-on-claim than anticipated in 2010.

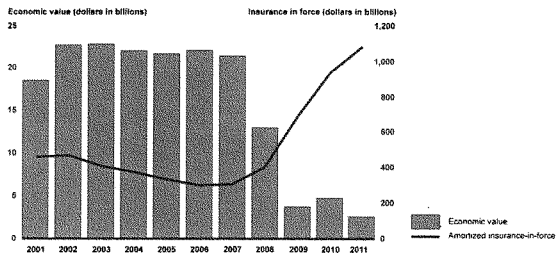
- More loans, particularly from the housing bubble years of 2006-2008 were in serious delinquency, and a significant percentage had been there for more than 1 year. Claims become the most likely outcome for extended delinquency loans, many of which are in foreclosure.

- For the first time, the actuarial calculations built in a factor recognizing the elevated redefault potential from the increased number of active loans with a previous serious delinquency (3 months or more).

- The independent actuaries also made a decision to treat foreclosure actions likely affected by so called robosigning problems as expected claims in 2012.[6]

In reviewing the components of the capital ratio, the combination of a relatively stable economic value (numerator of the ratio) and a declining insurance-in-force (denominator) over much of the decade increased the capital ratio. However, since 2008, the economic value has fallen as the insurance-in-force has risen, dramatically lowering the capital ratio (see fig. 2).

Figure 2: Estimates of the Fund's Economic Value and Insurance-in-force, 2001–2011



Source: GAO analysis of FHA data

At the same time, the Fund's condition has worsened from a budgetary perspective. Historically, FHA has estimated that its loan insurance program was a negative subsidy program (that is, estimated cash inflows exceeded expected cash outflows). On the basis of these estimates, FHA accumulated substantial balances in a budgetary account known as the capital reserve account, which holds reserves in excess of those needed for estimated credit subsidy costs and helps cover unanticipated

[6]Robosigning refers to the practice of mortgage servicers having a small number of employees sign a large number of affidavits and other legal documents that mortgage companies subsequently submitted to courts and other public authorities to execute foreclosures. For more information, see GAO, *Mortgage Foreclosures: Documentation Problems Reveal Need for Ongoing Regulatory Oversight*, GAO-11-433 (Washington, D.C.: May 2, 2011).

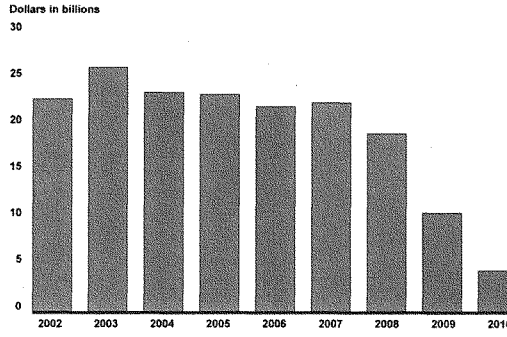
increases in those costs such as higher-than-expected claims. Reserves needed to cover estimated subsidy costs are held in the Fund's financing account.[7]

However, in recent years, the capital reserve account has covered large upward reestimates of FHA's credit subsidy costs through transfers to the financing account. As a result, balances in the capital reserve account fell dramatically—from $22 billion at the end of 2007 to an estimated $4.4 billion by the end of 2010 (see fig. 3).[8] If the reserve account were to be depleted, FHA would need to draw on permanent and indefinite budget authority to cover additional increases in estimated credit subsidy costs. FHA's latest annual report to Congress raises the possibility that, if house prices were to decline in 2012, the expected future losses on the current, outstanding portfolio could exceed current capital resources. These would be offset by the expected net receipts from the new 2012 cohort of loans. But, according to HUD, if house prices were to decline in 2012 by an amount rivaling that of 2011, these new loans would not be expected to generate sufficient net receipts to offset any potential decline in value of the current outstanding portfolio, potentially necessitating assistance from the Department of the Treasury (Treasury). Under one stress scenario in which house prices decline by 13.7 percent in 2011, rather than the 5.6 percent assumed in the baseline scenario, and house prices decline another 1.3 percent in 2012, HUD estimates that it may require $13 billion in assistance from Treasury to ensure the financing account has sufficient loss reserves.

[7]The financing account records lifetime cash flows for loans insured in 1992 and thereafter. It appears in the budget for informational and analytical purposes but is not included in the budget totals or budget authority or outlays.

[8]By the end of 2011, the balance in the capital reserve account rose slightly to $4.7 billion.

Figure 3: End-of-Year Balances in the Fund's Capital Reserve Account, 2002–2010



Source: GAO analysis of federal budget data.

The President's budget for 2013 contains a $9.3 billion upward reestimate in FHA's credit subsidy costs for the Fund. The budget indicates that the reestimate will deplete FHA's capital reserve account in 2012, causing FHA to draw on $688 million in permanent and indefinite budget authority. However, following the release of the budget, FHA indicated it may not need the $688 million, primarily because legal settlements with major lenders were expected to provide FHA with more than $900 million in compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated. Even without the legal settlements, the President's budget estimates that the capital reserve account would have a balance of more than $8 billion by the end of 2013. However, this estimate is based on long-term assumptions about house prices and interest rates that are inherently uncertain. Historically, FHA's initial budget estimates for the single-family mortgage program have been too optimistic.

FHA's Current Methodology for Assessing the Fund's Condition Does Not Fully Account for Future Economic Volatility

As we reported in September 2010, FHA and its actuarial review contractor enhanced their methods for assessing the Fund's financial condition but still were addressing other methodological issues that could affect the reliability of estimates of the capital ratio. Annual actuarial reviews of the Fund use statistical models to estimate the probability that loans will prepay or result in insurance claims on the basis of certain loan and borrower characteristics (such as loan-to-value ratios and borrower credit scores) and key economic variables (such as house prices and interest rates).[9] FHA and its contractor have enhanced these models in recent years, by incorporating additional variables related to loan performance and developed an additional model to predict loss rates on insurance claims. Also, consistent with recommendations we made in a prior report, in 2003, the actuarial reviews began to analyze the impact of more pessimistic economic scenarios—for example, nationwide declines in home prices—than they did previously.[10]

However, the current methodology is significantly limited by its reliance on a single economic forecast to produce the estimate of the capital ratio that is used to determine if the Fund is meeting the 2 percent capital reserve requirement. This approach does not fully account for the variability in future house prices and interest rates that the Fund may face. As a result, baseline estimates of the capital ratio may tend to underestimate insurance claims and mortgage prepayments and therefore may overestimate the Fund's economic value. In a November 2003 report, the Congressional Budget Office concluded that FHA could project the Fund's cash flows more accurately by using an approach (stochastic simulation) that involves running simulations of hundreds of different economic paths to produce a distribution of capital ratio estimates.[11]

Given the uncertainty that always surrounds estimates of future economic activity, the report we issued in 2010 recommended that HUD require the actuarial review contractor to use stochastic simulation of future economic conditions, including house prices and interest rates, to estimate the

[9]The loan-to-value ratio is the ratio of the amount of the mortgage loan to the value of the home.

[10]GAO, *Mortgage Financing: FHA's Fund Has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes*, GAO-01-460 (Washington, D.C.: Feb. 28, 2001).

[11]Congressional Budget Office, *Subsidy Estimates for FHA Mortgage Guarantees*, a CBO paper (Washington, D.C.: November 2003).

Fund's capital ratio and include the results of this analysis in FHA's annual report to Congress on the financial status of the Fund. However, the most recent annual report does not include an estimate of the Fund's capital ratio using this technique. In response to our 2010 report, FHA officials told us that they were planning to require the actuarial review contractor to use a stochastic simulation model for future actuarial reviews. But, these officials said that the model would be used to examine the implications of extreme economic scenarios on the Fund, and decisions about using the model to estimate the Fund's capital ratio had not been made.

FHA Has Taken Steps to Address Risks, but Has Yet to Implement a Comprehensive Risk-Assessment Strategy

FHA faces risks resulting from its operations. FHA's loan volume grew significantly from 2006 to 2010. In 2006, FHA insured almost half a million loans, totaling $70 billion in mortgage insurance. By 2010, it had more than tripled to 1.7 million loans insured or about $319 billion in mortgage insurance. During the same time period, FHA's single-family staff increased 8 percent, from 932 employees in 2006 to 1,011 employees in 2010, while increases in key workload areas often surpassed 100 percent as follows:

- Staff in the homeownership centers' Processing and Underwriting Division grew at a slower rate (22 percent) than key workload items, particularly volume-driven loan reviews (which increased by more than 100 percent).
- Increases in contractor staff and workload related to management of foreclosed or real estate-owned properties were substantial, but noncontractor staff levels increased at more modest levels.
- Loss mitigation actions more than doubled from 2006 to 2010, while loss mitigation staff levels remained relatively constant.[12]

[12]Loss mitigation actions seek to minimize losses from potential foreclosures by finding alternatives to foreclosure and helping homeowners retain their homes, if possible.

Although FHA Worked to Address Credit and Operational Risk, It Has Not Yet Put a Comprehensive Strategy in Place

Although FHA has taken steps to assess credit and operational risks facing its single-family insurance programs, its current risk-assessment strategy is not comprehensive because it is not integrated across the agency and lacks annual assessments and mechanisms to anticipate changing conditions. To address credit risk and help improve the financial condition of the Fund (which is supported by borrower premiums), FHA raised premiums and made or proposed policy or underwriting changes. For example, in April 2011, FHA increased its annual insurance premiums from 0.85 percent to 1.10 percent for borrowers with 30-year loans with initial loan-to-value ratios of 95 percent or less and from 0.90 percent to 1.15 percent for borrowers with 30-year loans with initial loan-to-value ratios greater than 95 percent.[13] Additionally, FHA increased down-payment requirements for borrowers with lower credit scores. FHA also has proposed reducing allowable seller contributions at closing, thereby helping to ensure that buyers put more of their own funds into the home purchase. Further, FHA has been revising its mortgage scorecard algorithm to recognize the effect of various risk elements not currently discerned by the scorecard and determine what cases warrant manual underwriting.[14] According to FHA, these revisions are in the early stages, and no completion date has been set.

To address operational risks and improve its risk-assessment strategy, in 2010, FHA established the Office of Risk Management and Regulatory Affairs and created the position of Deputy Assistant Secretary for Risk Management and Regulatory Affairs, which reports directly to the Assistant Secretary for Housing-FHA Commissioner. To provide assistance to the Office of Risk Management (one of the offices within the Office of Risk Management and Regulatory Affairs) in developing a risk-

[13]FHA recently announced a number of changes to its up-front and annual mortgage insurance premiums to take effect over the next few months. For example, FHA will increase the up-front premium for most of its single-family mortgages to 1.75 percent. In addition, to implement a statutory requirement, FHA will increase its annual premium for most mortgages by 0.1 percentage points. FHA also plans to use its preexisting statutory authority to increase by 0.25 percentage points the annual premium for mortgages exceeding $625,500. Further, FHA will cut its up-front and annual premiums for certain streamline refinance mortgages—refinancings from one FHA-insured loan into another—to help some existing FHA borrowers take advantage of current low mortgage interest rates.

[14]The purpose of the algorithm is to objectively measure the borrower's risk of default quickly and efficiently by examining the data the borrower provides on the loan application and the borrower's credit score.

management strategy and organizational structure and establishing risk-management policies and processes, FHA hired a consultant to produce a comprehensive report and recommend best practices for its operation.[15] According to FHA officials, FHA plans to adopt the consultant's recommendation to establish an enterprise risk committee to address overall risk to the organization and a second tier of committees to address program and operational risks. In addition, in 2009 the Office of Single Family Housing implemented an internal quality control initiative at headquarters and the four homeownership centers. For the areas identified as high-risk, headquarters and the homeownership center divisions developed plans to document control objectives and established a monitoring strategy in which each homeownership center submits quarterly reports to headquarters on the effectiveness of the controls, including the status of any mitigation efforts.

However, FHA's risk-assessment strategy raises several issues. First, FHA's current risk-assessment strategy is not comprehensive because it is not integrated throughout the organization. While the consultant recommended that FHA integrate risk assessment and reporting throughout the organization, currently the Office of Single Family Housing's quality control activities and the Office of Risk Management's activities remain separate efforts. FHA officials noted that until the Office of Risk Management sets up a governance process, the integration suggested by the consultant would not be possible. In the meantime, FHA officials stated that every effort was being made to help ensure that the Office of Risk Management's activities complemented program office activities. Second, contrary to HUD guidance, the Office Single Family Housing has not conducted an annual, systematic review of risks to its program and administrative functions since 2009. According to an official in this office, although management intended to conduct an annual assessment, the dates slipped because of changes in senior leadership in the Office Single Family Housing, and few staff were available to perform assessments (because of attrition and increased workload). Finally, the Office of Single Family Housing's current risk-assessment efforts do not include procedures for anticipating potential risks presented by changing conditions. The consultant's report proposes a reporting process and templates for identifying emerging risks and provides specific examples.

[15]McKinsey & Company, *Building the ORM Organization, Close-out Materials*, a report prepared at the request of the Department of Housing and Urban Development, December 2010.

Office of Risk Management officials told us that, once they are operational, the risk committees eventually would determine the exact design and content of these reports and templates.

Moreover, implementation and integration of the new risk-assessment strategy and its planned tools has been slow because of delays in defining the Office of Risk Management's authority, difficulty filling new staff positions in the Office of Risk Management, and changes in FHA leadership.

All these factors limit FHA's effectiveness in identifying, planning for, and addressing risk. More specifically, without an integrated risk-assessment strategy, certain risks may not be fully addressed at the operational level in a way that minimizes risk to the insurance programs; without annual reassessments of its risks, the Office of Single Family Housing lacks assurance that its quality control efforts address all its risks; and without ongoing mechanisms in place to anticipate and address new or emerging risks, FHA lacks a systematic approach to help the agency identify, analyze, and formulate timely plans to respond most effectively to changed conditions and risks. Therefore, we recommended that FHA (1) integrate the internal quality control initiative of the Office of Single Family Housing into the operational risk processes of the Office of Risk Management, (2) conduct an annual risk assessment, and (3) establish ongoing mechanisms—such as use of the report templates from the 2010 consultant's report—to anticipate and address risks that might be caused by changing conditions. FHA agreed with the recommendations and, as of January 2012, indicated that it either was working toward achieving the recommendations or had plans to do so in the very near future. For example, FHA said it would leverage or integrate existing risk management efforts as soon as the Office of Risk Management's final governance structure and risk management strategies were in place. The agency also stated that the Office of Risk Management would conduct an annual risk assessment as a component of its overall risk management strategy. It stressed that ongoing mechanisms to anticipate and address risks related to changing conditions would be part of the office's strategy.

FHA Has Taken Steps to Address Counterparty Risks but Continues to Face Human Capital Challenges

With growth in loan volume, the number of lenders and appraisers (or counterparties) participating in FHA's single-family programs also has grown. The total number of FHA-approved lenders increased 24 percent, from 10,370 in 2006 to 12,844 in 2010. The number of FHA-approved appraisers increased approximately 67 percent from 33,553 in 2006 to 56,192 in 2010.

FHA has made recent changes to address risks posed by its lenders and appraisers. For example, on May 20, 2010, FHA stopped approving new loan correspondents.[16] And as of January 1, 2011, existing loan correspondents could no longer participate in FHA programs. Former loan correspondents now can participate only as third-party originators through sponsorship by FHA-approved lenders. As a result, as of September 2011, the number of FHA-approved lenders had declined to about 3,700. Furthermore, the agency has increased the net worth requirement for approved lenders. On May 20, 2011, FHA increased the requirement for existing lenders to $1 million, except for lenders classified as small under the Small Business Administration's size standards (their requirement increased to $500,000). As of May 20, 2013, FHA will require a net worth of $1 million for all lenders, plus 1 percent of the total loan volume in excess of $25 million, to a maximum required net worth of $2.5 million.[17] To help ensure that lenders and appraisers follow its policies and procedures, FHA also has enhanced the criteria used to select loans for reviews. Specifically, since May 3, 2010, the agency has considered high-risk loan or borrower characteristics, such as certain types of refinanced loans and loans to borrowers with low credit scores. Additionally, FHA increased the number of risk factors used to target lenders for review. FHA also has revised its approach for overseeing appraisers.

FHA has addressed staffing and training needs and succession planning to some extent, but it lacks plans that strategically address future workforce needs, including replacing retiring staff. Although workforce planning practices used by leading organizations include defining critical skills and skill gaps, FHA's current approach does not have mechanisms for doing so. FHA previously had a multiyear workforce plan that identified the critical competencies; analyzed skills and competencies, including gaps; and proposed comprehensive strategies to address these gaps, but it has not created another such plan.[18] Instead, FHA has relied on

[16]Loan correspondents were lenders that originated FHA-insured loans—meaning that they could accept mortgage applications, obtain employment verifications and credit histories on applicants, order appraisals, and perform other tasks that precede the loan underwriting process—but did not have direct endorsement authority. Direct endorsement authority is the authority to underwrite loans and determine their eligibility for FHA mortgage insurance without HUD's prior review.

[17]Loan volume is defined as FHA single-family insured mortgages originated, underwritten, purchased, or serviced during the prior fiscal year.

[18]Department of Housing and Urban Development, *Strategic Workforce Plan, FY04 to FY08, Office of Housing,* (Washington, D.C.: July 2004).

occasional Resource Estimation and Allocation Process studies and annual managerial assessments of staffing and training needs.[19]

FHA also currently does not have a succession plan, although a plan for 2006–2009 identified mission-critical positions, analyzed existing staff competencies, assessed the number of retirement-eligible employees, and determined the probability of near-term retirements.[20] Succession planning is particularly important because, as of July 2011, almost 50 percent of the Office of Single Family Housing staff at headquarters were eligible to retire in the next 3 years. The percentage of staff eligible to retire at the homeownership centers was even higher—63 percent.

While FHA has taken some steps to address succession planning, these steps have been limited. FHA implemented two initiatives focused on succession planning. The first, begun in 2010, was intended to help ensure that, at any given time, at least two additional supervisors, managers, or executives could perform the work of each supervisor, manager, or executive. However, this does not apply to staff positions beyond management. The second initiative also began in 2010. Its goal is to train and develop staff. Neither initiative assesses the number of retirement-eligible employees in critical positions as required by HUD guidance. According to FHA officials, as resources have dwindled, they have considered all their positions to be critical.

According to FHA officials, plans to update their workforce and succession plans were suspended. In 2007–2009, FHA had a workforce planning process designed to identify critical skill gaps and a strategy for addressing these gaps. According to the officials, HUD told FHA to stop this initiative in 2009 because HUD was going to implement a workforce planning process for the entire department. However, HUD's effort never came to fruition because of funding shortages. Without a more comprehensive workforce planning process that includes succession planning, FHA's ability to systematically identify the workforce needed for the future and plan for upcoming retirements is limited. Therefore, we

[19]Resource Estimation and Allocation Process studies establish a staffing baseline for budget formulation and execution, strategic planning, organizational and management analyses, and ongoing management of staff resources.

[20]Department of Housing and Urban Development, *Succession Management Plan, Fiscal Year 2006-2009*, (Washington, D.C.: September 2006).

recommended that FHA develop workforce and succession plans for the Office of Single Family Housing. FHA agreed, stating that it would develop a formal workforce plan and had efforts under way to develop a succession plan. For example, FHA indicated that it would conduct a comprehensive workforce analysis by the end of January 2012 to determine mission-critical positions, analyze skill gaps, and assess retirement eligibilities and probabilities.

Ginnie Mae's Risk Management and Cost Modeling Require Continuing Attention

Ginnie Mae has undertaken efforts to improve risk management, but as many of these efforts remain in planning or under development, they merit continued commitment and follow through from senior management. Ginnie Mae faces operational risk related to limited staffing and reliance on contractors in the context of increased market share and volume.[21] And, while Ginnie Mae's revenues exceeded its costs, and it has accumulated a capital reserve of about $14.6 billion, its modeling of estimated cost and revenues could be improved by incorporating certain practices, such as using the best available data, that we believe represent sound internal controls for models.

Ginnie Mae Has Undertaken Efforts to Improve Risk Management, but Many Remain to Be Implemented

Ginnie Mae has taken steps to better manage operational and counterparty risks and has several initiatives planned or under way. GAO and others have identified limited staff, substantial reliance on contractors, and the need for modernized information systems as risks that Ginnie Mae may face. Ginnie Mae's counterparty risk would stem from the failure of issuers of Ginnie Mae-guaranteed MBS to provide investors with monthly principal and interest payments.

Although Ginnie Mae's market share and volume of MBS has increased in recent years, its (noncontractor) staff levels have been relatively constant during this time. In recent years, its actual staff levels have been below its authorized staff levels. Ginnie Mae's internal control reviews for 2009 and 2010 identified a control deficiency due to employee vacancies, including multiple vacancies in certain positions relevant to internal controls. The 2011 internal control review had no findings related to employee vacancies. As part of a broad effort to address and mitigate its

[21]From calendar year 2007 to calendar year 2010, Ginnie Mae's share of the MBS market increased from nearly 5 to 25 percent. As of 2010, Ginnie Mae guaranteed more than $1 trillion in outstanding MBS composed primarily of FHA-insured mortgages.

operational risks related to staffing levels, Ginnie Mae has incorporated some principles consistent with our internal control and management tool.[22] Consistent with this guidance, Ginnie Mae has identified skill gaps in staff resources, developed a plan to hire additional staff, and made changes to its organizational structure. The President's budget for 2012 requested $30 million for administrative expenses at Ginnie Mae, which included supporting 137 full-time equivalent positions (FTE). Ginnie Mae officials told us that, if this request was not approved, the agency would be forced to use its limited resources across its many risk-management efforts and would leave it with little capacity to conduct preventative or forward-looking analyses. The enacted 2012 budget provides $19.5 million for these administrative expenses and up to an additional $3 million, depending on the volume of Ginnie Mae's guarantees.

Between 2005 and 2010, as Ginnie Mae's volume and issuer activity increased, and staff levels remained largely the same, the agency increasingly relied on contractors. Contract obligations in 2010 were more than 14 times the contract obligations in 2005. According to Ginnie Mae officials, they have contracted out many functions because the agency has flexibility to use agency revenues to procure contractors. That is, statutorily Ginnie Mae has flexibility to spend funds for contracting expenses because these expenses can be funded from agency revenues without annual appropriations. Ginnie Mae depends on contractors to provide a variety of services, including those related to guaranteeing MBS, such as collecting data from issuers and processing monthly principal and interest payments to investors. In addition, Ginnie Mae relies on several contractors to take over the servicing responsibilities on pooled loans when issuers default. Ginnie Mae has used its own staff as well as third-party assessments of contracts, to oversee its contractors but plans to provide additional staff resources to supplement the third-party assessments. However, officials said that implementation of this plan has been put on hold due to changes in the Ginnie Mae budget. Additionally, Ginnie Mae has conducted risk assessments of its contracts and potential operational risks, and it plans to review the proposed recommendations and determine how to implement them.

[22]GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001) and *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

Ginnie Mae has been working on an ongoing initiative to improve its information technology systems. According to officials, Ginnie Mae has been working on the first phase of its business process improvement initiative for the last few years based on a plan developed in conjunction with the Office of Management and Budget. The main goal of the initiative is to modernize the agency's technology by consolidating processes and eliminating redundant systems. Some of the weaknesses included outdated data systems, a reliance on paper-based processes, and a lack of integrated data systems. According to Ginnie Mae, the first phase of the initiative resulted in the creation of nine new information technology system initiatives such as a system that allows Ginnie Mae to receive enhanced reporting and provide status information to issuers. Ginnie Mae has been drafting a strategy document for its ongoing initiative to look for additional improvement opportunities in its information technology systems.

To manage its counterparty risk, Ginnie Mae has processes in place to oversee MBS issuers that include approval, monitoring, and enforcement and has revised its approval and monitoring procedures. For example, in 2010, Ginnie Mae increased the minimum net worth requirement for issuers of Ginnie Mae-guaranteed MBS to $2.5 million. But, planned initiatives to enhance its risk-management processes for issuers, including its tracking and reporting systems, have not been fully implemented. These initiatives include a plan to develop a database for tracking the resolution and timing of findings from reviews of issuers. It will be important for Ginnie Mae to complete its initiatives related to operational and counterparty risk as soon as practicable. Our November 2011 report includes an appendix that contains a listing of Ginnie Mae's planned and proposed initiatives and their expected completion dates.[23]

Ginnie Mae Has Not Yet Implemented Certain Practices for Modeling Costs and Revenues

In developing inputs and procedures for the model used to forecast costs and revenues, Ginnie Mae did not consider certain practices identified in Federal Accounting Standards Advisory Board (FASAB) guidance for preparing cost estimates of federal credit programs. Ginnie Mae has not developed estimates based on the best available data, performed sensitivity analyses to determine which assumptions have the greatest impact on the model, or documented why it used management

[23]GAO-12-49.

assumptions rather than available data. By not fully implementing practices in FASAB guidance that we believe represent sound internal controls for models, Ginnie Mae's model may not be using critical data that could affect the agency's ability to provide well-informed budgetary cost estimates and financial statements. This may limit Ginnie Mae's ability to accurately report to Congress the extent to which its programs represent a financial exposure to the government.

We recommended in our November 2011 report on Ginnie Mae that the HUD Secretary direct Ginnie Mae to take steps to ensure its model more closely follows certain practices identified in FASAB guidance for estimating subsidy costs of credit programs. More specifically, Ginnie Mae should (1) assess and document that it is using the best available data in its model and most appropriate modeling approach; (2) conduct and document sensitivity analyses to determine which cash flow assumptions have the greatest impact on the model; (3) document how management assumptions are determined, such as those for issuer defaults and mortgage buyout rates; and (4) assess the extent to which management assumptions, such as those for issuer defaults and mortgage buyout rates, can be replaced with quantitative estimates. Ginnie Mae has indicated that it plans to implement all of our recommendations but has not provided a specific timeline. In addition, Ginnie Mae agreed with our observation about the importance of completing ongoing and planned initiatives for enhancing its risk-management processes, as soon as practicable, to improve operations.

Mr. Chairman, Ranking Member Olver, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact me at 202-512-8678 or sciremj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Paige Smith, Assistant Director; Andrew Pauline, Assistant Director; Steve Westley, Assistant Director; Dan Alspaugh; Nadine Garrick Raidbard; John McGrail; Marc Molino; José R. Peña; Beth Reed Fritts; Paul Revesz; and Barbara Roesmann.

GAO's Mission	The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
Obtaining Copies of GAO Reports and Testimony	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."
Order by Phone	The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm. Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537. Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.
Connect with GAO	Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.
To Report Fraud, Waste, and Abuse in Federal Programs	Contact: Website: www.gao.gov/fraudnet/fraudnet.htm E-mail: fraudnet@gao.gov Automated answering system: (800) 424-5454 or (202) 512-7470
Congressional Relations	Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548
Public Affairs	Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Please Print on Recycled Paper.

Mathew J. Scire
Director, Financial Markets and Community Investment
U.S. Government Accountability Office

Mr. Scire is a Director in GAO's Financial Markets and Community Investment Team. He has 30 years of audit experience and currently is responsible for leading GAO audit work involving housing programs. His teams are focusing on a wide-range of subjects, including FHA's mortgage insurance program and Ginnie Mae's mortgage-backed security guarantee program.

Contact Information:
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C., USA, 20548
202-512-6794
sciremj@gao.gov

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, March 29, 2012

TRANSPORTATION

Key Issues and Management Challenges

Statement of Phillip R. Herr, Managing Director,
Physical Infrastructure Issues

GAO-12-581T

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to participate in this hearing to discuss key issues and management challenges facing our nation's transportation system, as well as the Department of Transportation (DOT), as Congress deliberates transportation policy and funding issues. A safe and efficient transportation system is critical to our economy and affects the daily life of most Americans. Our nation has built vast systems of roadways, airways, railways, transit systems, pipelines, and waterways that help move people and goods. However, these systems are under growing strain, and the cost to repair and upgrade them to meet current and future demands is estimated in the hundreds of billions of dollars. Yet, calls for increased investments in the systems come at a time when traditional funding sources are eroding. Funding is further complicated by the federal government's financial condition and fiscal outlook. GAO's long-term simulations show that, absent policy changes, the federal government faces unsustainable growth in deficits and debt.

The challenges facing DOT and Congress regarding transportation priorities and funding cannot be addressed by simply spending more money. Despite large increases in expenditures for transportation in recent years, system performance has not commensurately improved. Congestion continues to grow, particularly in urban areas, and looming problems from the anticipated growth in travel are not being adequately addressed. As performance degrades and the system grows increasingly unreliable, the economic and environmental implications are significant, including wasted fuel and lost time, as cars idle in traffic, airline passengers confront delays, and businesses incur increased costs. As always, safety remains a primary concern, and improving information security is critical to DOT's mission.

Although our nation's transportation system is owned and operated by multiple levels of government and the private sector, DOT is the principal federal agency responsible for implementing national transportation policy and administering most of the federal transportation programs. DOT has multiple missions—primarily focusing on mobility and safety—that are carried out by its various operating administrations (such as aviation, highways, transit, railroads, and others). For fiscal year 2013, the President's budget has requested $74.5 billion to carry out its activities.

My statement today focuses on five key issues and management challenges that DOT and Congress face. These areas are

- funding the nation's transportation system,
- refocusing and restructuring surface transportation policies and programs,
- improving transportation safety,
- implementing the Next Generation Air Transportation System (NextGen), and
- improving information security.

My statement is based on a body of work that we have completed from March 2008 through March 2012, including recommendations we have made to both DOT and Congress. This body of work was conducted in accordance with generally accepted government auditing standards. A list of related GAO products is included with this statement, along with references to these products throughout the statement.

Funding the Nation's Transportation System

Funding Highways and Transit

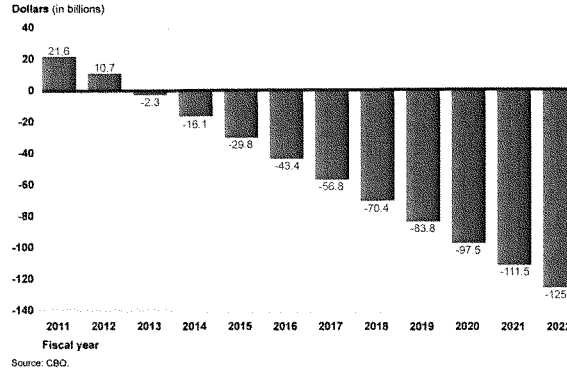
The major source of federal surface transportation funding is the Highway Trust Fund,[1] but the revenues that make up that fund are eroding. The federal motor fuel tax rate has not increased since 1993, meaning that the 18.4 cent per gallon tax on motor fuels enacted in 1993 is worth about 11.5 cents today. This trend will continue with the introduction of more fuel-efficient and alternative-fuel vehicles that have the potential through fuel savings to decrease motor fuel purchases and associated tax receipts. The Congressional Budget Office estimates, as of March 2012, that to maintain current spending levels plus inflation between 2013 and 2022, the Highway Trust Fund will require over $125 billion more than it is expected to take in over that period.[2] (See fig. 1.) For this and other

[1]The Highway Trust Fund is an account established by law to hold and distribute federal highway user taxes (e.g., federal excise taxes on fuel) that are dedicated for highway and transit related purposes. It is composed of two accounts: the Highway Account and the Mass Transit Account.

[2]*Congressional Budget Office—March Fiscal Year 2012 Baseline Projections for the Highway Trust Fund.*

reasons, funding surface transportation remains on GAO's High-Risk List.[3] Long-term reauthorization of surface transportation provides an opportunity for Congress to fund the program on a sustainable basis.

Figure 1: Projected Highway Trust Fund Balance, Fiscal Years 2011 through 2022



Source: CBO.

The President's fiscal year 2013 budget proposes increasing surface transportation funding levels, including a 34 percent increase over the next 6 years for highways and bridges—funded in part through general revenue transfers. These transfers would be in addition to the more than $30 billion Congress transferred from general revenues to the Highway Trust Fund since 2008. Augmenting transportation funding through general revenues would move away from the "user pays" principle and might not be sustainable in the long term given the federal government's growing fiscal challenge.

Congress and the administration are considering various proposals to expand federal financing tools to help leverage investment in transportation infrastructure:

[3]GAO-11-278.

- *Expanding the Transportation Infrastructure Financing Innovation Act (TIFIA) program.* The TIFIA program provides federal credit assistance in the form of direct loans, loan guarantees, and lines of credit to finance surface transportation projects, including highway, transit, rail, and intermodal projects. In recent years, TIFIA has been in high demand in part because of the tightening of commercial credit markets and low federal treasury rates. Reauthorization proposals contain various changes to TIFIA, including a significant expansion of the program, increasing the eligible federal share of the program, and modifying the federal nonsubordination clause.[4] DOT will face challenges in balancing a broader portfolio, with the increased exposure and risk to the federal government that these changes might produce. Additionally, although such changes might help augment funding, DOT will face challenges in ensuring that adequate staff and expertise exist to efficiently manage an expanded program.

- *Creating a National Infrastructure Bank.* As envisioned in legislative and administration proposals, a National Infrastructure Bank would make direct loans, loan guarantees, and offer credit enhancements to eligible applicants for transportation and other projects (including those in the water and energy sectors) in an attempt to stretch limited federal funds. The creation of such an entity would create numerous challenges inherent in the start-up of any new program or government entity. One such challenge would be ensuring that any new program or entity does not duplicate or overlap any existing financing programs and tools, such as TIFIA, state infrastructure banks, and others. Another challenge would stem from seeking a balance between financing projects that yield the highest public benefit—but that potentially concentrate funds in one region—with a desire for an equitable distribution of federal investment in infrastructure across the country.

- *Continuing and expanding federal bonding mechanisms.* These mechanisms include Grant Anticipation Revenue Vehicles, which allow states to issue bonds backed by expected future federal-aid

[4]The nonsubordination clause or "springing lien" means that the TIFIA lien on project revenues can be subordinated to those of senior lenders except in the event of bankruptcy, insolvency, or liquidation of the obligor. In such an instance, the TIFIA lien would rise to parity with senior creditors. This provision can be effected through a master trust agreement, an intercreditor agreement, or other agreement entered into at the time of execution of the credit agreement.

highway formula grants, and Private Activity Bonds, which are debt instruments issued by state or local governments whose proceeds are used to construct projects with significant private involvement. Several bills have been introduced in Congress that would increase investment in the nation's infrastructure through bonding. Although bonds can provide up-front capital for infrastructure projects, accelerate construction, and potentially reduce construction costs, they can be more expensive for the federal government than traditional grants. The higher expense would result, in part, because the government would have to compensate the investors for the risks they assume.

While these tools have promise to help meet increasing transportation demands, they are forms of debt that must be repaid, not new revenues. New revenues for transportation infrastructure investments can come only from two sources: new taxes or new fees. Ultimately, raising new revenues or reducing transportation spending or both will be needed.

Funding Aviation

The Federal Aviation Administration's (FAA) expenditures are budgeted to continue to exceed forecasted revenues from the Airport and Airway Trust Fund in future years.[5] FAA operation expenditures not covered by trust-fund revenues are projected to be paid for by general revenues from the U.S. Treasury.[6] According to the President's fiscal year 2013 budget, roughly 20 percent of FAA's total annual expenditures for about the next 10 years might have to be paid for by general revenues. As the federal budget continues to be constrained, Congress may face difficult choices regarding reducing FAA's appropriations, which could increase FAA's

[5]FAA is primarily funded by appropriations from the Airport and Airway Trust Fund, which is financed by various excise taxes paid by passenger and cargo airlines and general aviation operators.

[6]In comparison, the general revenue contribution to FAA was about 33 percent and 31 percent in fiscal years 2010 and 2011, respectively. As the Congressional Research Service (CRS) has reported, there has been general acceptance that there is a public interest component to the operation of the national aviation system, which is appropriated from the Treasury's general revenues. This compensates for what the military, government, and nonuser beneficiaries (also known as societal users) might have contributed if they had actually paid into the trust fund.

total costs and delay the benefits associated with investments such as NextGen.[7]

Funding High-Speed Rail

The President's budget for fiscal year 2013 requests $2.5 billion for high-speed and intercity passenger rail—part of a proposed $47 billion for passenger rail projects over the next 6 years. However, Congress has not provided funding for high-speed rail since appropriating over $10 billion through the American Recovery and Reinvestment Act (Recovery Act) of 2009 and the fiscal year 2010 DOT Appropriations Act.[8] We recently reported that the Federal Railroad Administration (FRA) essentially followed good grant making practices as it awarded Recovery Act funds,[9] but we have also identified several challenges facing these projects as they move forward.[10] For example, project sponsors find it difficult to secure the up-front investment for construction costs and indicated that they have or will need some federal funding to develop their projects.

Refocusing and Restructuring Surface Transportation Policies and Programs

Long-term reauthorization provides an opportunity for Congress to fundamentally re-examine surface transportation programs as we have recommended—another reason why funding surface transportation is on GAO's High-Risk List—and to expand on recent efforts to reform the highway program. From the standpoint of state and local governments, re-examining surface transportation programs could reduce fragmentation and the administrative expenses states face complying with myriad federal statutory and regulatory requirements. This re-examination could include the following:

- *Clearly define the federal role in relation to other levels of government and, thus, create a more targeted federal role focused around evident national interests.* For issues in which there is a strong national

[7]We recently reported on the revenue forecast accuracy for the Airport and Airway Trust Fund and the extent to which revenues into the Airport and Airway Trust Fund might cover planned FAA expenditures. See GAO-12-222.

[8]Congress subsequently rescinded $400 million from the 2010 DOT Appropriations Act through the 2011 DOT Appropriations Act. Congress has also provided approximately $1.4 billion annually to fund Amtrak operating and capital costs.

[9]GAO-11-283.

[10]GAO-09-317.

interest, ongoing federal financial support and direct involvement could help meet federal goals. Where national interests are less evident, other stakeholders could assume more responsibility, and some programs and activities may better be devolved to the states or other levels of government.

- *Ensure accountability for entities receiving federal funds, for example, by moving to a performance-based program.* Current programs lack links to transportation system performance or of grantees receiving federal funds. Most highway, transit, and safety grant funds are distributed through formulas that have only an indirect relationship to needs, and many have no relationship to performance or outcomes. Funds for highways, in particular, are distributed to return revenues to their state of origin and states have considerable flexibility to reallocate them among highway and transit programs. Legislation passed by the Senate—Moving Ahead for Progress in the 21st Century (MAP-21)—would direct DOT to develop performance targets for pavement on the Interstate Highway System and many of the nation's bridges. If a state were not to meet the minimum condition levels for two consecutive reporting periods, it would be required to commit a specific percentage of its highway funding to the deficient area.[11] For other areas, MAP-21 directs states to develop performance targets related to national priorities, as well as link investment priorities to these targets.

- *Employ the best approaches and analysis to direct federal funds to infrastructure with clear national interests.* There is a natural tension between providing funding based on merit and performance and providing funds on a formula basis to achieve equity among states. Consequently, meritorious projects of national or regional significance, in particular those connecting multiple transportation modes or those that cross geographic boundaries, may not compete well at the state level for formula funds. We have recommended to Congress that a criteria-based selection approach be used to direct a portion of federal funds in programs designed to select transportation projects with national and regional significance.[12]

[11]S. 1813, § 1106, 112th Cong., as adopted by the Senate March 14, 2012.

[12]GAO-08-400 and GAO-11-234.

Congress developed a merit-based approach in the Transportation Investment Generating Economic Recovery (TIGER) grant program, now in its fourth round of competitively awarding grants, based on criteria such as the potential for a project to improve the state of repair of critical infrastructure and reduce fatalities and injuries. The first round of the TIGER grants under the Recovery Act gave preference to projects that could be completed within about 2 years of the award announcement;[13] that had substantial co-investments from other funding partners and where TIGER funds would complete that package of funding; and that would fund an operable project when completed.[14] This approach has the potential to ensure that federal funds produce useful and functional projects in a timely fashion. Going forward, evaluating whether completed TIGER projects have met these goals will be important to assessing this program's potential for investing federal funds in projects of regional and national significance.

Should Congress move toward a more performance-based system for highways, DOT's Federal Highway Administration (FHWA) would need to work with the states to develop performance goals, measure states' progress, and take corrective action should states not meet performance targets. We have reported weaknesses in FHWA's oversight of statewide and metropolitan area planning processes that prevents FHWA from effectively measuring and tracking performance outcomes. FHWA's oversight focuses on process, rather than outcomes,[15] and, as such, FHWA cannot assess whether states' investment decisions are improving the nation's transportation system's condition and performance. We recommended that FHWA more closely review states' transportation improvement programs to assess whether states' investments are achieving intended outcomes.[16] In addition, FHWA would need to improve its ability to collect national level data on highway performance across many of the programs it oversees. We have made numerous

[13]The American Recovery and Reinvestment Act of 2009 required that, in making the final award selections, priority be given to projects that were expected to be completed within 3 years of enactment of the act on February 17, 2009. Pub. L. No. 111-5, div. A, title XII, 123 Stat. 115, 204. Awards for the first round of TIGER grants were made on February 17, 2010.

[14]GAO-11-234.

[15]GAO-09-898 and GAO-11-77.

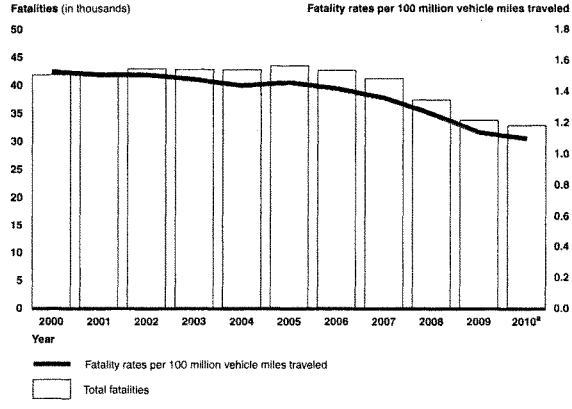
[16]GAO-11-77.

recommendations to DOT related to the need for accurate and reliable national-level data.

Improving Transportation Safety

Another continuing challenge facing DOT pertains to improving transportation safety. In recent years, we have seen a remarkable decline in transportation-related fatalities and injuries, the vast majority of which occur on our nation's roads. Traffic fatalities decreased more than 20 percent over the last decade, from nearly 42,000 in 2000 to less than 33,000 in 2010, the lowest level since 1949. (See fig. 2.) Traffic injuries decreased approximately 30 percent, from about 3.2 million in 2000 to about 2.2 million in 2010. These encouraging trends are likely due in part to federal and state DOT efforts. However, even these reduced numbers of fatalities and injuries are still too many.

Figure 2: Traffic Fatality Rates and Total Number of Fatalities, 2000-2010



Sources: NHTSA and FHWA.

[a]Fatality rate for 2010 is based on estimated vehicle miles traveled data.

Other modes of surface transportation are relatively safe. Still, high-profile accidents have raised concerns, such as the collision of two trains in

Washington, D.C., in 2009 that resulted in 9 fatalities and 52 injuries. A less visible—but important—mode of freight transportation is the nation's more than 2.5 million mile natural gas and hazardous liquid pipeline network. From 2004 to 2010, an average of about 16 fatalities per year for all pipeline incidents was reported to DOT. While pipelines are relatively safe, incidents can have dire consequences. For example, a natural gas pipeline explosion in San Bruno, California, in September 2010 killed 8 people and damaged or destroyed over 100 homes.

Turning to aviation, the U.S. system is one of the most efficient and safest in the world. However, from 1999 to 2010, over 450 aviation-related fatalities occurred annually. The vast majority of these fatalities were in the general aviation sector, which includes all forms of aviation except commercial and military operations. Specifically, this sector consists of over 220,000 aircraft—including airplanes, helicopters, and balloons—and composes over 90 percent of the U.S. civilian aircraft fleet engaged. Over the same time period, approximately 70 percent of fatal general aviation accidents occurred in the personal flying segment. In addition, a growing proportion of amateur-built aircraft are involved in accidents.

Our recent work on transportation safety has highlighted room for improvement in three areas: data, performance measurement, and oversight. High-quality safety data are vital to allocating resources and targeting programs effectively. High-quality data are also essential to implement performance measures to identify progress and ensure accountability. The National Highway Traffic Safety Administration (NHTSA) has made good progress toward establishing such performance measures, but within other DOT administrations, there remains room for improvement. As DOT moves closer to a data-driven, performance-based structure, a robust oversight approach is critical to ensure that states are establishing appropriate goals and making sufficient progress toward those goals.

- For traffic safety data, states maintain six core types of data systems that are used to identify priorities for highway and traffic safety programs.[17] In 2010, we reported that NHTSA's periodic assessments designed to help states identify quality issues with their data systems were in some cases incomplete or inconsistent. We recommended

[17]The six core types of systems are vehicle, driver, roadway, crash, citation and adjudication, and injury surveillance.

measures for DOT to make those assessments more useful for states, and DOT is implementing those measures.[18]

- For years, some commercial motor carriers have registered under a new identity to evade detection for previous safety violations. Currently, the Federal Motor Carrier Safety Administration (FMCSA) examines a small number of the tens of thousands of new motor carrier applicants that register annually—including only 2 percent of approximately 66,000 applicants in 2010—to identify carriers operating illegally under new identities. We recently recommended that FMCSA develop a data-driven approach to target new carriers attempting to disguise their former identities and expand this new oversight approach to examine all motor carriers.[19]

- The Federal Transit Administration (FTA) has created plans and other tools to help guide and manage its transit safety efforts but has not fully adopted leading practices to set clear performance goals and related measures. Performance goals can help prioritize efforts and make the best use of available resources, which is essential for FTA, given the relatively small number of staff it has devoted to safety and state of good repair efforts. To ensure that the agency targets resources effectively, we recommended that FTA use leading practices to set clear and specific goals and measures to guide and track the performance of its rail transit safety efforts.[20] FTA concurred in part with our recommendation but reported that it was premature to act before the passage of legislation that provides FTA with sufficient and appropriate rail transit safety authority. However, it is unclear why waiting to fully adopt leading practices is necessary since FTA already has efforts underway to assist transit agencies in addressing safety challenges.

- FTA oversees state safety agencies that are responsible for providing direct oversight for transit agencies, but safety standards, expertise, staffing levels, and enforcement authority vary among these agencies. DOT has proposed legislation that would give FTA authority to set uniform safety standards for transit agencies and enforce them, in

[18]GAO-10-454.

[19]GAO-12-364.

[20]GAO-11-199.

cooperation with the states, and FTA has requested funds to set up such a new rail transit safety oversight program. In 2009, we raised some issues for Congress to consider in deciding whether or how to act on DOT's proposal, including determining what level of government has the best capacity to oversee transit safety, ensuring that FTA and state oversight agencies would have adequate and qualified staff to carry out the envisioned program, and understanding the potential budgetary implications of the program.[21]

- Regarding pipeline safety, part of the nation's pipeline network consists of more than 200,000 miles (estimated) of onshore "gathering" pipelines, many of which are not federally regulated because they have generally been located away from populated areas and operate at relatively low pressures. We recently recommended that the Pipeline and Hazardous Materials Safety Administration (PHMSA) collect data on these pipelines to assess safety risks because urban development is encroaching on existing pipelines and the increased extraction of oil and natural gas from shale deposits is resulting in new gathering pipelines that can be larger in diameter and operate at higher pressures.[22]

- With regard to aviation, FAA lacks data to accurately assess the safety performance of certain industry sectors, such as general aviation, and to more fully assess the trends in certain types of events, such as for runway excursions and ramp accidents. FAA has concurred with, but has not yet implemented, several of our recommendations aimed at improving its capability to use data for aviation safety oversight.[23] Similarly, we could not determine whether FAA completed the required inspections for pilot examiners or the reasons that the discretionary inspections of flight instructors were conducted. We recently recommended that FAA develop a comprehensive system to measure performance for meeting annual inspection requirements for pilot schools and better understand the nature and scope of discretionary inspections for flight instructors.[24]

[21]GAO-10-314T. The Senate has adopted legislation that would expand FTA's role in some of these areas. See S. 1813, § 20021.

[22]GAO-12-388.

[23]GAO-10-414 and GAO-12-24.

[24]GAO-12-117.

Implementing the Next Generation Air Transportation System

An additional challenge that I would like to address pertains to the implementation of the Next Generation Air Transportation System (NextGen)—a complex multiagency undertaking intended to transform the current radar-based system into an aircraft-centered, satellite-based system by 2025.[25] FAA has taken some steps to improve NextGen implementation and is continuing to address critical issues that we, stakeholders, and others have identified over the years.[26] For example, FAA has made progress in streamlining its processes and improving its capacity to develop new flight procedures that have led to measurable benefits, such as fuel savings.[27] FAA has also set NextGen performance goals through 2018.[28] However, as our recent and ongoing work has shown, FAA faces several challenges in keeping key NextGen acquisitions within cost estimates and on schedule, delivering NextGen benefits, and addressing changes in management and governance, including vacancies in key leadership positions.

- *Timely delivery of key acquisitions.* As we recently reported, FAA continues to face challenges in assuring that acquisitions are within cost and on schedule.[29] In our review of 30 major air traffic control acquisition programs, including those critical to the NextGen implementation, we found that costs for 11 of the 30 programs have increased from initial estimates and that 15 programs experienced delays.[30]

[25]Along with the Department of Transportation and FAA, the Departments of Defense, Commerce, and Homeland Security, the National Aeronautics and Space Administration, and the White House Office of Science and Technology Policy are involved in NextGen development.

[26]See the end of this statement for a list of related GAO products on NextGen.

[27]For example, FAA reports thousands of gallons of fuel savings from the performance-based navigation routes in operation at Atlanta and the continuous descents being used into Los Angeles and San Francisco.

[28]These goals include improving the throughput of air traffic at key airports by 12 percent over 2009 levels, reducing delays by 27 percent from 2009 levels, and achieving a 5 percent reduction in average taxi-time at key airports.

[29]GAO-12-223.

[30]See GAO-12-223 for more information on the specific air traffic control programs that have experienced cost increases or schedule delays.

Cost increases and schedule delays occurred due to (1) additional or unanticipated system requirements; (2) insufficient stakeholder involvement (such as air traffic controllers' input) throughout system development; (3) underestimating the complexity of software development; and (4) unanticipated events, including funding shortfalls or work stoppages. These challenges, if they persist, will impede the implementation of NextGen, especially given interdependencies among many acquisition programs in which cost increases or delays in one program can affect the costs and schedules of others. We recommended that FAA further incorporate best practices into its acquisition processes by requiring cost and schedule risk analysis, independent cost estimates, and integrated master schedules.[31]

- *Delivery of NextGen benefits*: To maintain credibility with aircraft operators, FAA must deliver systems, procedures, and capabilities on time, so that operators can realize benefits from investments they have already made in avionic equipment and have incentives to continue to invest in the equipment necessary for NextGen to operate as planned. For example, a large percentage of the current fleet is equipped to fly more precise performance-based navigation procedures. Although FAA has begun implementing new flight procedures to allow for more precise navigation under NextGen, aircraft operators have raised concerns that, to date, FAA has not produced procedures that are most effective in delivering such benefits as reduced flight time, congestion, and fuel consumption. The NextGen Advisory Committee has made recommendations to help FAA identify and prioritize improvements that could provide more immediate benefits, including recommending that FAA focus NextGen capabilities at metroplexes that have the greatest impact on aviation

[31]For our report, we selected and analyzed four programs—the Automatic Dependent Surveillance-Broadcast (ADS-B) system, the Collaborative Air Traffic Management Technologies (CATMT) system, the System Wide Information Management (SWIM) system, and the Wide Area Augmentation System (WAAS)—in depth and found that FAA is not consistently following the characteristics of high-quality cost estimates and scheduling best practices that GAO previously identified.

system performance.[32] To help address industry concerns, FAA has initiatives under way or planned in 21 metropolitan areas across the country, including completing initial work to identify improvements in 7 metroplexes, including Washington, D.C.; Charlotte, North Carolina; and Atlanta, Georgia—focusing on routes and procedures that will produce benefits for operators.[33]

While some operational improvements can be made with existing aircraft equipment, realizing more significant NextGen benefits requires a critical mass of properly equipped aircraft. Reaching that critical mass is a significant challenge because the first aircraft operators to purchase and install NextGen-capable technologies will not obtain a return on their investment until many other operators do. FAA estimates that the avionics needed on aircraft to realize significant NextGen capabilities will cost private operators about $5 billion to $7 billion through 2018. The recently passed FAA Modernization and Reform Act of 2012 created a program to facilitate public-private financing, such as loan guarantees and other credit assistance tools, for equipping general aviation and commercial aircraft with NextGen technologies.[34] However, no decisions have been made on how to incentivize this transition.

- *Changes in management and governance:* FAA is working to abolish and merge a number of committees to improve decision making and reduce time requirements of senior FAA executives. It also moved the NextGen organization under the responsibility of the Deputy Administrator (who is currently serving as the Acting Administrator) and created a new head of program management for NextGen-related

[32]The NextGen Advisory Committee is comprised of aviation stakeholders from the government and industry. The committee works to develop a common understanding of priorities in the context of overall NextGen capabilities and implementation constraints, with an emphasis on the near term and midterm. The committee primarily focuses on implementation issues, including prioritization criteria at a national level, joint investment priorities, and location and timing of capability implementation.

[33]In addition, the FAA Modernization and Reform Act of 2012, Pub. L. No. 112–95, § 213, 126 Stat. 11, 46-50, requires FAA to certify, publish, and implement procedures that maximize the fuel efficiency and airspace capacity of NextGen commercial operations at each of the 35 operational evolution partnership (OEP) airports by June 30, 2015.

[34]Pub. L. No. 112–95 § 221, 126 Stat. 11, 54.

programs to ensure improved oversight of NextGen implementation.[35] Additionally, the recently passed FAA authorization act redesignated the Director of the Joint Planning and Development Office to directly report to the FAA Administrator and created a new leadership position—the Chief NextGen Officer—that will also report to the administrator but has not yet been filled. While elimination of duplicative committees and a focus on accountability for NextGen implementation are positive steps, it remains to be seen whether this latest reorganization will produce the desired results without the necessary leadership positions filled. As we have previously reported, leadership is a critical element of success for large-scale systems integration efforts like NextGen.[36]

Improving Information Security

DOT relies on more than 400 computerized information systems to carry out its financial and mission-related operations. Effective information security controls are required to ensure that financial and sensitive information is adequately protected from inadvertent or deliberate misuse; fraudulent use; and improper disclosure, modification, or destruction. Ineffective controls can also impair the accuracy, completeness, and timeliness of information used by management. The need for effective information security is further underscored by the evolving and growing cyber threats to federal systems and the dramatic increase in the number of security incidents reported by federal agencies, including DOT. From fiscal years 2007 to 2011, the number of incidents reported to the United States Computer Emergency Readiness Team (US-CERT)[37] by DOT increased by more than 140 percent.

DOT has been challenged to effectively protect its computer systems and networks. Our analysis of agency and OIG reports shows that the department has not consistently implemented effective controls, such as

[35]As part of FAA's restructuring efforts, the Air Traffic Organization will be divided into two branches: operations and NextGen program management. Operations will focus on the day-to-day management of the national air space system and the program management branch will be responsible for developing and implementing NextGen programs while working with operations to ensure proper integration.

[36]GAO-10-824.

[37]US-CERT is a component of the Department of Homeland Security and is responsible for analyzing and addressing cyber threats and vulnerabilities and disseminating cyber-threat warning information. Federal agencies, including DOT, are required to report security incidents to US-CERT.

those intended to prevent, limit, and detect unauthorized access to its systems or manage the configuration of devices to prevent unauthorized access and ensure system integrity. We have reported on the need for federal agencies, including DOT, to improve implementation of information security controls, such as those for configuring desktop computers and wireless communication devices.[38] For example, we recommended that DOT complete deployment of a National Institute of Standards and Technology (NIST)-validated security tool to monitor compliance with the U.S. Government Configuration Baseline (USGCB) and ensure that language is included in contracts to ensure new acquisitions include USGCB settings and products of information technology providers operate effectively using them. DOT agreed with our recommendations. Until DOT strengthens information security controls, it has limited assurance that financial and sensitive information is adequately protected from inadvertent or deliberate misuse, fraudulent use, and improper disclosure, modification, or destruction.

In conclusion, we have ongoing work examining many of the topics discussed in this statement. For example, we are conducting work for this subcommittee on the viability of supplanting or replacing fuel taxes with a system of charging vehicle owners a user fee based on vehicle miles traveled. We also have ongoing work examining California's high-speed rail program, participation in the TIFIA program, and implementation of the Next Generation Air Transportation System.

We look forward to supporting this committee's oversight activities on these and many other issues. Chairman Latham, Ranking Member Olver, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions you have at this time.

GAO Contact and Staff Acknowledgments

For further information on the statement, please contact Phillip R. Herr at (202) 512-2834 or herrp@gao.gov. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. Individuals making key contributions to this statement were Paul Aussendorf, Matt Cail, Steve Cohen, Matt Cook, Kathryn Crosby,

[38]GAO-11-43 and GAO-10-202.

Lynn Filla-Clark, Holly Dye, Colin Fallon, Susan Fleming, Judy Guilliams-Tapia, Brandon Haller, Robert Heilman, David Hooper, Joah Iannotta, Bert Japikse, Heather Krause, Joanie Lofgren, Ed Laughlin, Heather MacLeod, Sara Vermillion, Pamela Vines, Andrew Von Ah, and Susan Zimmerman.

Related GAO Products

Pipeline Safety: Collecting Data and Sharing Information on Federally Unregulated Gathering Pipelines Could Help Enhance Safety. GAO-12-388. Washington, D.C.: March 22, 2012.

Motor Carrier Safety: New Applicant Reviews Should Expand to Identify Freight Carriers Evading Detection. GAO-12-364. Washington, D.C.: March 21, 2012.

Air Traffic Control Modernization: Management Challenges Associated with Program Costs and Schedules Could Hinder NextGen Implementation. GAO-12-223. Washington, D.C.: February 16, 2012.

Airport and Airway Trust Fund: Factors Affecting Revenue Forecast Accuracy and Realizing Future FAA Expenditures. GAO-12-222. Washington, D.C.: January 23, 2012.

Highway Emergency Relief Strengthened Oversight of Eligibility Decisions Needed. GAO-12-45. Washington, D.C.: November 8, 2011.

Initial Pilot Training: Better Management Controls Are Needed to Improve FAA Oversight. GAO-12-117. Washington, D.C.: November 4, 2011.

Disadvantaged Business Enterprise Program: Assessing Use of Proxy Data Would Enhance Ability to Know if States Are Meeting Their Goals. GAO-12-78. Washington, D.C.: October 13, 2011.

Next Generation Air Transportation System: FAA Has Made Some Progress in Implementation, but Delays Threaten to Impact Costs and Benefits. GAO-12-141T. Washington, D.C.: October 5, 2011.

Enhanced Oversight and Improved Availability of Risk-Based Data Could Further Improve Safety. GAO-12-24. Washington, D.C.: October 5, 2011.

Information Security: Weaknesses Continue Amid New Federal Efforts to Implement Requirements. GAO-12-137. Washington, D.C.: October 3, 2011.

NextGen Air Transportation System: Mechanisms for Collaboration and Technology Transfer Could be Enhanced to More Fully Leverage Partner Agency and Industry Resources. GAO-11-604. Washington, D.C.: June 30, 2011.

Surface Transportation: Competitive Grant Programs Could Benefit from Increased Performance Focus and Better Documentation of Key Decisions. GAO-11-234. Washington, D.C.: March 30, 2011.

Intercity Passenger Rail: Recording Clearer Reasons for Awards Decisions Would Improve Otherwise Good Grantmaking Practices. GAO-11-283. March 10, 2011.

High-Risk Series: An Update. GAO-11-278. Washington, D.C.: February 2011.

Rail Transit: FTA Programs Are Helping Address Transit Agencies' Safety Challenges, but Improved Performance Goals and Measures Could Better Focus Efforts. GAO-11-199. Washington, D.C.: January 31, 2011.

Statewide Transportation Planning: Opportunities Exist to Transition to Performance-Based Planning and Federal Oversight. GAO-11-77. Washington, D.C.: December 15, 2010.

Transportation: Integration of Current Implementation Efforts with Long-term Planning for the Next Generation Air Transportation System. GAO-11-132R. Washington, D.C.: November 22, 2010.

Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds. GAO-10-999. Washington, D.C.: September 20, 2010.

Next Generation Air Transportation System: FAA and NASA Have Improved Human Factors Research Coordination, but Stronger Leadership Needed. GAO-10-824. Washington, D.C.: August 6, 2010.

NextGen Air Transportation System: FAA's Metrics Can Be Used to Report on Status of Individual Programs, but Not of Overall NextGen Implementation or Outcomes. GAO-10-629. Washington, D.C.: July 27, 2010.

Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability. GAO-10-604. Washington, D.C.: May 26, 2010.

Aviation Safety: Improved Data Quality and Analysis Capabilities Are Needed as FAA Plans a Risk-Based Approach to Safety Oversight. GAO-10-414. Washington, D.C.: May 6, 2010.

Next Generation Air Transportation System: Challenges with Partner Agency and FAA Coordination Continue, and Efforts to Integrate Near-, Mid-, and Long-term Activities Are Ongoing. GAO-10-649T. Washington, D.C.: April 21, 2010.

Traffic Safety Data: State Data System Quality Varies and Limited Resources and Coordination Can Inhibit Further Progress. GAO-10-454. Washington, D.C.: April 15, 2010.

Information Security: Agencies Need to Implement Federal Desktop Core Configuration Requirements. GAO-10-202. Washington, D.C.: March 12, 2010.

Rail Transit: Observations on FTA's State Safety Oversight Program and Potential Change in Its Oversight Role. GAO-10-314T. Washington, D.C.: December 10, 2009.

Transportation Worker Identification Credential: Progress Made in Enrolling Workers and Activating Credentials but Evaluation Plan Needed to Help Inform the Implementation of Card Readers. GAO-10-43. Washington, D.C.: November 18, 2009.

Next Generation Air Transportation System: FAA Faces Challenges in Responding to Task Force Recommendations. GAO-10-188T. Washington, D.C.: October 28, 2009.

Metropolitan Planning Organizations: Options Exist to Enhance Transportation Planning Capacity and Federal Oversight. GAO-09-868. Washington, D.C.: September 9, 2009.

High Speed Passenger Rail: Future Development Will Depend on Addressing Financial and Other Challenges and Establishing a Clear Federal Role. GAO-09-317. March 19, 2009.

Surface Transportation: Principles Can Guide Efforts to Restructure and Fund Federal Programs. GAO-08-744T. Washington, D.C.: July 10, 2008.

Surface Transportation: Restructured Federal Approach Needed for More Focused, Performance-Based, and Sustainable Programs. GAO-08-400. Washington, D.C.: March 6, 2008.

GAO's Mission	The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
Obtaining Copies of GAO Reports and Testimony	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."
Order by Phone	The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm. Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537. Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.
Connect with GAO	Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.
To Report Fraud, Waste, and Abuse in Federal Programs	Contact: Website: www.gao.gov/fraudnet/fraudnet.htm E-mail: fraudnet@gao.gov Automated answering system: (800) 424-5454 or (202) 512-7470
Congressional Relations	Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548
Public Affairs	Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Please Print on Recycled Paper.

Bio for Phillip Herr, GAO

Phillip Herr is Managing Director of GAO's Physical Infrastructure team, which oversees programs at the Department of Transportation, FCC, GSA, and the U.S. Postal Service. Since joining GAO in 1989, he has led reviews of a broad range of domestic and international programs. Prior to joining GAO, he worked in management consulting.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, March 29, 2012

HUD INFORMATION TECHNOLOGY

More Work Remains to Implement Necessary Management Controls

Statement of Valerie C. Melvin, Director
Information Management and Technology Resources Issues

GAO
Accountability * Integrity * Reliability

GAO-12-580T

March 29, 2012

HUD INFORMATION TECHNOLOGY

More Work Remains to Implement Necessary Management Controls

GAO
Accountability * Integrity * Reliability
Highlights

Highlights of GAO-12-580T, a testimony before the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

The Department of Housing and Urban Development (HUD) performs a range of significant home ownership and community development missions that are integral to the U.S. economy. In doing so, HUD relies extensively on information technology (IT). However, HUD's IT environment has not effectively supported its business operations, and as a result, the department has been working to modernize its IT infrastructure. To provide oversight and inform decision-making, Congress required that HUD develop and submit plans describing how it intends to use its expenditures to support its modernization efforts. In addition, Congress required GAO to review these expenditure plans to determine if they meet statutory conditions.

GAO was asked to testify on HUD's progress in implementing its prior recommendations on (1) modernizing its IT systems and (2) improving its expenditure plans. In preparing this statement, GAO relied on previous work at HUD.

What GAO Recommends

GAO is not making new recommendations. As noted, GAO has previously made recommendations aimed at assisting HUD in fully implementing key IT management controls.

View GAO-12-580T. For more information, contact Valerie C. Melvin at (202) 512-6304 or melvinv@gao.gov.

What GAO Found

HUD has made progress in implementing prior GAO recommendations on modernizing its IT environment; however more actions are needed. In 2009, GAO reported that HUD lacked key IT management controls; which are essential to achieving successful outcomes. Specifically,

- Although the department had established an IT strategic plan that outlined goals and performance measures, it had not assessed its performance against established goals. As a result, HUD did not know how well it was achieving its goals and where it needed to improve.
- While the department had established policies and procedures for developing a complete portfolio of its investments, it had not established policies and procedures for evaluating that portfolio. This meant that it was limited in its ability to control risks and achieve benefits associated with the mix of legacy systems and modernization investments it selected.
- HUD's Office of the Chief Information Officer had not adequately assessed its IT workforce needs, inventoried existing staff knowledge and skills, and identified gaps between needs and existing capabilities. As a result, the department was not well positioned to acquire the skill sets it needed.
- The department had not fully developed its enterprise architecture (EA)—which provides a blueprint for investing that connects strategic plans with individual programs and system solutions. This meant that HUD lacked a sufficient basis for guiding and directing its modernization projects.

GAO made a number of recommendations to HUD aimed at strengthening its management capabilities, and while progress has been made in addressing them, work remains. For example, HUD issued a department-wide strategic plan with associated goals that aligned with new IT strategic goals. However, the department had not developed criteria for assessing the performance of its portfolios, finalized its plan to address its IT workforce needs, or established an approved policy for its enterprise architecture.

HUD's modernization expenditure plans, which are to describe how the agency plans to spend IT modernization funding, have improved in response to GAO's recommendations. These plans are to meet statutory conditions that include identifying, for each modernization project, capabilities to be delivered, expected benefits, estimated costs, and key milestones; and showing that each project is supported by adequate staff, conforms to capital planning and investment control requirements, complies with the department's EA, and is being managed in accordance with department lifecycle management policies. GAO found that HUD's 2010 expenditure plan contained weaknesses and thus was limited as a congressional oversight and decision-making mechanism. Accordingly, GAO recommended, among other things, that the department ensure future plans satisfied each element of the statutory conditions. In response, subsequent expenditure plans submitted in 2011 and 2012 satisfied the conditions. As a result, these more recent plans have provided key information needed for continued oversight of the modernization projects.

Chairman Latham, Ranking Member Olver, and Members of the Subcommittee:

I am pleased to participate in today's hearing to discuss the Department of Housing and Urban Development's (HUD) management challenges. HUD performs a range of significant home ownership and community development missions that are integral to our nation's economic well-being, and it relies extensively on information technology (IT) to carry out these missions. Moreover, legislation enacted since 2008 to stimulate the economy, in part through strengthening the housing market, has continued to expand the department's responsibilities and thus its need for IT support. For example, the department's increased responsibilities under the Housing and Economic Recovery Act of 2008 introduced greater processing requirements for Federal Housing Administration (FHA) mortgage insurance programs, which further increased its reliance on information systems and other IT services.[1]

Nevertheless, HUD has long experienced shortcomings in its IT capability. As we reported in 2009, the department's IT environment did not effectively support its business operations.[2] The department's operating plans and budget submissions indicated, for example, that its information systems were overlapping and duplicative, were not integrated, necessitated manual workloads, and employed antiquated technologies that were costly to maintain. Since our report, the department has been working to modernize its IT infrastructure.

To provide oversight and inform decision-making, Congress established limitations on funding for HUD's IT modernization efforts through appropriations acts in fiscal years 2010 and 2011.[3] In addition, these acts required us to review and provide an assessment of HUD's IT modernization expenditure plans. To this end, we issued two reports—in

[1]Housing and Economic Recovery Act, 2008, Pub L. No. 110-289, § 2126, 122 Stat. 2654, 2840-41 (July 30, 2008).

[2]GAO, *Information Technology: HUD Needs to Strengthen Its Capacity to Manage and Modernize Its Environment,* GAO-09-675 (Washington, D.C.: July 31, 2009).

[3]Department of Housing and Urban Development Appropriations Act, 2010, Pub. L. No. 111-117, div. A, tit. II, 123 Stat. 3074, 3093-3094 (Dec. 16, 2009); and Department of Defense and Full-Year Continuing Appropriations Act, 2011, Pub. L. No. 112-10, § 2259, 125 Stat. 38, 197-98 (April 15, 2011).

department and to external parties. For instance, the department reports that its business areas rely on IT to process over 50,000 loan requests per week, over 12,000 service calls per month, and more than 7,000 grant requests annually for each of its major grant programs.

HUD's IT Environment

Despite its growing mission, HUD's IT environment has not effectively supported its business operations. In 2009, we reported that the department's IT had consisted of:

- over 200 information systems, many of which performed the same functions and, thus, were duplicative;
- stove-piped, nonintegrated systems that could not share related data;
- manual processing for key business processes; and
- systems that were nearly 15 years old (on average), including several different operating systems and using 35 different programming languages.

A factor that had contributed to the state of HUD's IT environment was the department's focus, primarily, on the maintenance of its existing systems and infrastructure, rather than on the modernization needed to meet its expanding mission needs. For example, in fiscal year 2008, about 2 percent of the department's IT obligations were for new development, whereas the remaining 98 percent were obligated for operating and maintaining legacy systems.

HUD's Office of the Chief Information Officer (OCIO) is responsible for supporting the department's programs, services, and management processes by providing IT solutions and services. Additionally, the OCIO is responsible for developing, modernizing, and enhancing the IT environment. To this end, in 2010, the OCIO established four management goals, which aligned with the department's 2010-2015 Strategic Plan: (1) enhance the quality, availability, and delivery of HUD information to citizens, business partners, and government; (2) promote an enterprise approach to IT that will foster innovation and collaboration; (3) achieve excellence in IT management practice; and (4) transform the OCIO to a culture of operational excellence that can achieve current and future departmental goals.[8]

[8]HUD Strategic Plan Fiscal Year 2010-2015 (May 2010).

year 2007. By not regularly assessing and reporting progress against its strategic IT performance measures and activities, HUD did not know how well it was achieving its strategic goals and where it needed to improve. We recommended that HUD establish a plan for developing and implementing the department's performance management framework, including an implementation schedule of key activities and related resource needs, and ensure that this plan provides for annually reporting progress in achieving IT strategic goals.

In September 2011, we reported that HUD had fully implemented this recommendation by issuing a new department-wide strategic plan with associated goals that aligned with new IT strategic goals that the OCIO developed.

- ***IT investment management***: Investment management is aimed at selecting, controlling, and evaluating IT investments in a manner that better ensures that they produce business value, reduce investment-related risks, and increase accountability and transparency in the investment decision-making process. As we have previously reported, moving away from project-centric investment management and toward a portfolio-based approach, is considered a best practice. By managing investments as a portfolio, an organization can consider new investment proposals, along with previously funded investments, and identify the appropriate mix and synergies of these investments to best meet mission needs, technology needs, and priorities for improvement.

  In 2009, we reported that while HUD had established a range of policies and procedures for developing a complete investment portfolio, it had not established policies and procedures for evaluating the portfolio.[12] Without having defined and implemented practices for evaluating the performance of its portfolios, HUD was limited in its ability to control the risks and achieve the benefits associated with the mix of legacy system and modernization investments selected. Accordingly, we recommended that HUD develop a plan for instituting policies and procedures for reviewing, evaluating, and improving the performance of the department's portfolio of investments; developing criteria for assessing portfolio performance and reviewing and

[12]GAO-09-675.

- ***Enterprise architecture***: EA development and use is aimed at establishing a corporate blueprint for investing that connects strategic plans with individual programs and system solutions. As such, this blueprint provides the information needed to guide and constrain investments in a consistent, coordinated, and integrated fashion—thereby improving interoperability, reducing duplicative efforts, and optimizing mission operations. Developing an enterprise architecture with associated system solutions for portions, or segments (referred to as segment architectures), is an important aspect of this activity.

  In 2009 we reported that, while HUD had established an enterprise architecture program that met key aspects of related best practices, its efforts to develop segment architectures were not sufficient. For example, HUD had identified and prioritized segments to be modernized; however, it did not adhere to these priorities, the segments developed did not reflect important elements of federal guidance, and most were out of date. We found that HUD had developed eight segment architectures; however, these segments were not the department's eight highest priorities. As a result, HUD's segment architectures did not provide a sufficient basis for guiding and directing segment projects in a manner to ensure that both, system enhancements and new development efforts were properly sequenced, well integrated, and not duplicative. We recommended that HUD develop a plan for reexamining segment priorities and updating and developing segment architectures in accordance with these priorities and relevant guidance.

  We subsequently reported in September 2011, that the department had made progress toward implementing our recommendation, by, for example, creating a conceptual enterprise architecture. However, it had not yet established a policy to guide the development, maintenance, and use of this architecture. Thus, we further recommended that HUD establish and approve a policy to govern the EA prior to further developing its segment architectures. In response, HUD officials did not explicitly agree or disagree with our recommendation, but noted that the department was working to draft an enterprise architecture policy. As of this month, the department had not yet finalized its EA policy. To this end, establishing a commitment to its new EA direction remains a challenge for the department.

releases. The plan also described how each of seven identified modernization projects complied with the department's evolving enterprise architecture. Additionally, the plan clearly described the status of the department's efforts to implement the management controls.

Further, in January 2012, HUD submitted its 2011 expenditure plan for our review, which also satisfied both sets of statutory conditions. For example, the plan described specific and measureable mission benefits for each of the identified IT modernization projects. In addition, it described costs associated with the lifecycle of each project, providing details on funds needed for major work activities and deliverables. Further, the plan categorized each project relative to HUD's evolving architecture.

As a result of the measures that HUD has taken to respond to our recommendations and improve the content of each subsequent expenditure plan, it has rendered these plans more useful. In turn, the plans should facilitate continued and more effective oversight of the department's IT modernization projects.

Going forward, the fiscal year 2012 appropriations act has directed us to evaluate HUD's 2012 expenditure plan.[15] Additionally, the 2012 conference report directed us to evaluate implementation of project management practices, including contractor oversight and cost estimation for selected IT modernization projects.[16] We have also been directed to assess the department's institutionalization of IT governance. We anticipate initiating aspects of this work in spring 2012.

In summary, HUD has made progress in addressing certain weaknesses that we identified in its IT management capabilities. However, it is important to note that more actions are still needed. In particular, fully addressing the recommendations that we have made is vital to helping

[15]Consolidated and Further Continuing Appropriations Act, 2012, Pub. L. No. 112-55, 125 Stat. 552, 691-92 (Nov. 18, 2011).

[16]This direction is contained in the Senate Appropriations Committee report, S. Rep. No. 112-83, at 141-42 (2011), as approved by the conference committee in the Explanatory Statement, H.R. Conf. Rep. No. 112-284, at 286 (2001), accompanying the Consolidated and Further Continuing Appropriations Act, 2012, Pub. L. No. 112-55, 125 Stat. 552, 691-92 (Nov. 18, 2011).

GAO's Mission	The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
Obtaining Copies of GAO Reports and Testimony	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."
Order by Phone	The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm. Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537. Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.
Connect with GAO	Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.
To Report Fraud, Waste, and Abuse in Federal Programs	Contact: Website: www.gao.gov/fraudnet/fraudnet.htm E-mail: fraudnet@gao.gov Automated answering system: (800) 424-5454 or (202) 512-7470
Congressional Relations	Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548
Public Affairs	Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Please Print on Recycled Paper.

Valerie C. Melvin
Director, Information Management and Technology Resources Issues United States Government Accountability Office

Ms. Melvin is the Director of Information Management and Technology Resources Issues within the Government Accountability Office's (GAO) Information Technology Team, where she is responsible for work examining IT issues across the federal government. She has directed reviews of federal IT management and modernization programs at various agencies, including VA, DOD, SSA, and OPM. She has also directed GAO's research and evaluations in the areas of health information technology and IT human capital.

Ms. Melvin graduated from the University of Maryland, where she received her undergraduate degree in Business Administration and a Master's degree with a concentration in Management Information Systems. She is also a graduate of the John F. Kennedy School of Government Executive Education Program at Harvard University. In addition, she is a certified government financial manager.

Mr. LATHAM. When we move to questions for GAO, Mr. Scire will discuss HUD management and issues in FHA, Ms. Melvin will address HUD information technology, and Mr. Herr will cover the DOT. As we go into questions, I encourage the GAO witnesses to comment on questions asked to the IGs and also the IGs to add comments if you have relevant information.

Mr. Montoya, your report last May on the Philadelphia Housing Authority's use of stimulus was startling in its findings of total mismanagement and lack of accountability. You looked at a random sampling of 10 scattered housing capital improvement projects and found that each and every project lacked documentation on how the funds were spent. Further site inspections of these properties found dozens of violations of basic codes for electrical, plumbing, and more.

Most disturbing, however, was that the PHA spent over $5 million in taxpayer funds to obstruct the audit itself and misused funds in other ways, such as to pay for lavish entertainment.

I would just ask you, if that Philadelphia PHA is now in HUD's receivership, and hopefully being turned around, can you tell us what the study revealed about HUD's oversight of the PHAs in general and how things could get so bad at one of our Nation's largest PHAs without anybody at HUD noticing?

Mr. MONTOYA. Yes, sir, absolutely.

You are correct, Philadelphia is probably on the very bad scale of housing authorities we have seen. Unfortunately, because of capacity, there is not a lot of oversight coming from HUD. Keep in mind that, for many of these public housing authorities, the oversight is really left to them. In Philadelphia's case, they are under the Moving to Work program, which even requires less oversight. The Moving to Work program is a program designed to allow the housing authority more flexibility on how they spend their funding.

We have argued with the Department since probably 2004 that we did not feel that we had certainly the confidence, if you will, in the Philadelphia Housing Authority to go under the Moving to Work Program. Because of the lack of more stringent oversight, we have encouraged HUD to take them off of that program and provide more of the stringent oversight they otherwise would have.

Our concern with a number of issues there falls into the use of Federal monies, if you will, housing monies to pay outside legal firms. In the particular case you mentioned, it was actually $1.1 million that they spent on an outside legal firm, in fact, to fight our oversight. They fought our subpoena requirements because they would not provide us the information we originally requested and which we have the right to have as the IG. They have even gone so far as to put attorneys with our auditors and follow them while they are doing their audits. This is money that is spent on what we believe to be frivolous, unnecessary items when it could very well be used for housing issues.

Mr. LATHAM. Okay, thank you. And you have given recommendations to HUD as to how to address this?

Mr. MONTOYA. Yes, sir, we have, one of them being taking the Philadelphia Housing Authority off of the Moving to Work program.

Mr. LATHAM. I think, Mr. Herr, your key issues and management challenges submission notes in the high-speed rail segment that project sponsors find it difficult to secure upfront investment for construction costs and indicated that project sponsors will need Federal funding to develop these projects. Why do you think it is so hard for these sponsors to find it difficult to secure private upfront capital funding?

Mr. HERR. Some of the work that we have done in the past suggests that the costs to get into high-speed rail are quite high, and the private sector finds it difficult to make some of these upfront investments.

There are also the long timelines associated with some of these investments in terms of the long build time, getting the environmental review process done, and then also to get them under way. So there is the potential uncertainty associated with some of those investments and the large costs.

Mr. LATHAM. Is there anything that we could do, other than appropriate an awful lot of money, to bring outside investment on?

Mr. HERR. I think that is probably more on a case-by-case basis in the sense of looking at the demand and the potential use of particular segments of rail.

Mr. LATHAM. Mr. Scovel, the FAA has a responsibility to ensure that all revenue collected by airports are used for the airport itself, recognizing that any diversion of those funds for nonairport use is a violation of the law. We have been made aware of diversion of airport funds at LAX and New York City. In the case of LAX, those diversions have been occurring for a number of years. Can you tell me if you have looked at the diversion in those sites and what are your findings?

Mr. SCOVEL. Thank you, Mr. Chairman.

We have done work in the revenue diversion field regarding airport revenues for a long, long time. Specifically, regarding LAX, dating back to the 1990s, we did several revenue-diversion reviews and found in one, for instance, that, of $12 million billed for police services, $9.8 million was improperly billed.

We have done more recently revenue-diversion studies with regard to Denver last year, and found over $40 million improperly diverted.

Venice, Florida——

Mr. LATHAM. $40 million in Denver?

Mr. SCOVEL. Yes, sir.

And with regard to Venice, Florida, on a much, much more minor scale but still some questionable diversions of airport revenue from that local airport.

We are in receipt of communications from Members of Congress, Members Gallegly, Miller, and Lungren from California, regarding the LAX situation. We have received those last fall.

We referred a couple of these issues initially to FAA for their initial review. FAA has been, frankly, slow in getting back to us. They have requested an extension until June 5th to address the LAX situation.

We think, as we have learned more about it, that we will need to do more work in the revenue-diversion area, and we are prepared to embark on that quickly with regard to LAX.

With regard to New York City, which you mentioned as well, sir, our office has not done work with regard to New York; but we are of diversions perhaps exceeding $500 million, approaching $600 million in excess of the statutory cap that New York City and some other airports were granted when the FAA grant program was first initiated in the 1980s. We will be prepared, as we tackle LAX, to look at other airports as well to try to get our arms around the magnitude of that problem.

Mr. LATHAM. Thank you very much. We will be of any assistance that you need to push this forward. We will be more than happy to help.

Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman.

Mr. LATHAM. Finally.

Mr. OLVER. You have quickly gone through three totally different questions with three different people here. So I have a feeling—I thought you were going to at least cover everybody, and then we would close the hearing.

Mr. LATHAM. We can do that.

Mr. OLVER. We can do that. My mind is not quite as flexible as yours, I think, on these sorts of things.

Mr. Montoya, I want to simply ask you, on this Philadelphia situation, in your discussions with HUD, do you have the feeling—how much staff would they need to really do the oversight that you now believe was necessary in the case of Philadelphia? In other words, they deal with 3,000 housing authorities, some of them quite small, some of them quite big, and apparently it is possible for this to happen because they are not focused upon the oversight. What kind of staff would they have to have to do what you feel was necessary here, integrated over the whole of the system?

Mr. MONTOYA. Thank you for the question, Mr. Olver.

There are, in fact, over 4,000 housing authorities, and I do not know that HUD would ever have the amount of capacity to properly do oversight on every single one of them is the short answer. So I do not think there is any number I could possibly give you.

Mr. OLVER. Do you think that they have the staff that can be moved from other places without taking seriously from their other activities?

Mr. MONTOYA. I do not believe that would be the case.

But what I would say to you, sir, is that having a housing authority under this Moving to Work program, which allows for even less oversight, would be a start in the right direction, i.e., getting them off that program, providing more of the stringent oversight that HUD would normally be giving to a program like that.

Our concern since 2004 has been why are you not asking the right questions? Why are you putting Philadelphia Housing Authority, given the years of information we had provided with our concerns, why would you still put them under a program that offers less oversight?

Mr. OLVER. So you think that they ought to have not put them under it in the first place probably?

Mr. MONTOYA. That would be the first thing I would say.

Mr. OLVER. Okay. They should have done more oversight before putting them into this new program?

Mr. MONTOYA. That would be correct, sir.

Mr. OLVER. Let me ask something else.

Since 1991, HUD OIG has indicated—this is tough for you maybe because you have only been there 4 months—that the OIG has indicated that HUD needs a more sophisticated financial management system. Funds to modernize this system have been provided as part of the Transformation Initiative since fiscal year 2010, and I am concerned about the slow progress on that project. Could you elaborate on the current limitations of HUD's existing financial management infrastructure?

Mr. MONTOYA. Yes, sir. They currently have five financial management systems, none of which are integrated with each other. Their plan all along has been to build a system that all five would be in, if you will, where they can actually do better budget analysis, better staffing analysis, these sorts of things. Because of a number of hurdles, to include whether they could include FHA and Ginnie Mae in the IT transformation process, there has been some delay.

My understanding is that sometime this year two of those financial management systems will be integrated with each other, if you will. We are still concerned that that is actually going to happen. You still would have three other outlying systems that are not integrated.

Mr. OLVER. Okay. So you have five management systems that do not communicate. You are saying that you have been having conversations with the Secretary and his staff, and they are working on getting two of them to—is that good enough progress?

Mr. MONTOYA. No, sir.

Mr. OLVER. What are they saying about how they intend to——

Mr. LATHAM. If I could interrupt, we are down to zero on the time, and I would like to have you continue this line of questioning when we come back.

Mr. OLVER. Okay.

Mr. LATHAM. Keep that answer in your mind.

Mr. MONTOYA. Yes, sir.

Mr. LATHAM. We will be in recess here.

Mr. OLVER. This is just one vote, as I understand it.

Mr. LATHAM. There is a possible second one, but I do not think so.

Excuse us. Thank you.

[Recess.]

Mr. LATHAM. Go ahead, Mr. Olver. Complete your questioning.

Mr. OLVER. Mr. Montoya, you were in the midst of an answer to the question of my elaboration on the existing financial management infrastructure as you understand it from your discussions with them.

Mr. MONTOYA. Right, sir.

Well, what I would like to stress is that there has been steady improvement over the years. We will give HUD that. There has been a steady improvement. From our audit standpoint, we had ranked them as a material weakness for their IT infrastructure, and that has been upgraded, to significantly deficient. So it is still deficient, but they are moving in the right direction.

With regards to the five core financial management systems, the first phase of this new financial management improvement project that they have going on would replace two of these systems. What we are not clear about is how that is going to function and integrate with the other systems that are not yet at that point. So, our concern continues to be that it is not moving as quickly as we thought it would, given the number of years that the program has been in effect.

Mr. OLVER. Well, we have funded money for some time. If it takes 3 years each time to get one more system, do they need to be all five of them integrated?

Mr. MONTOYA. That might be a question that GAO might be able to better answer for you. But, from our perspective, yes, it would help us and we believe help them to have all their core financial management systems on the same platform.

Mr. OLVER. Well, then let me ask Ms. Melvin—Mr. Melvin, good for you. I just noticed it. Okay.

From what you have observed during your engagement with HUD's transformation initiative, what can you tell us about the status and future of that project?

Ms. MELVIN. What we understand about that particular initiative at this point is that it has been halted and is under reassessment. There are some concerns going forward, kind of building on what Mr. Montoya was saying, in terms of not really knowing at this point what will happen next with it.

It appears that, based on a CIO review, they did find some concerns relative to this particular initiative lacking a number of key elements relative to an integrated master schedule, and certified project management professional. So there are a number of deficiencies in the IT management of that particular initiative. And as we understand right now, they have some go-forward alternatives that have been presented to the Secretary, and the Secretary has not yet made a decision on how they will move forward with this particular initiative. So it is on hold at the moment.

Mr. OLVER. Waiting for the Secretary's decision?

Ms. MELVIN. Yes.

Mr. OLVER. Do the proposals, in your opinion, address the concerns that Mr. Montoya is expressing?

Ms. MELVIN. Unfortunately, we have not seen them. We have not done an in-depth review of this particular initiative yet. Our work has been at a much higher level, looking at the expenditure plans for the transformation initiative.

But from what I do understand, several of the alternatives that have been given to the Secretary for going forward are in terms of maintaining the status quo, meaning continuing with the project as it is, or making some revisions and course corrections. Presumably, those course corrections would deal with some of the weaknesses that were identified through that assessment, but I do not have specific details that I could provide on exactly what those proposals look like.

Mr. OLVER. Do you folks work hand in glove, the GAO and the IGs? Is it expected that there will be strong cooperation and collaboration on these issues?

Mr. MONTOYA. Yes, sir, I believe GAO, again, is looking at it at more of a 60,000-foot level. We are talking more specifically about how these core financial systems are actually going to help on the day-to-day function, not so much the oversight of the expenditures of the larger picture.

Mr. OLVER. Okay, Mr. Chairman, I have beaten that one for a while.

Mr. LATHAM. Thank you, Mr. Olver.

Mr. Womack.

Mr. WOMACK. Mr. Scovel, I have asked this question over the last couple of years but recently asked Secretary LaHood about the proposed cut to the contract tower program, which would harm not only my district but I think compromise aviation safety in general, I understand that you have looked into not only the effectiveness of the program from a safety standpoint but also the savings created by the program. Can you share with me your most recent work on this program and what your findings may have been?

Mr. SCOVEL. Thank you, Mr. Womack, and we are aware of your keen interest in this subject.

Sir, I am sure you will recall that at this committee's request we have ongoing work into FAA's contract tower program. We are not yet in a position to indicate in detail what our findings and recommendations might be. We anticipate reporting to the Secretary and to this committee sometime this summer on that.

However, if I may refer back to our previous work, which dates in the period from 1998 to 2003, we conducted a couple of audits of FAA's contract tower program, and at that time we noted, of course, 248 contract towers in 46 different States. We found generally that those contract towers could be operated at a lower cost than a typical comparable FAA-operated tower. We found an equivalent level of safety, and we also found that the users and the local communities, of course, generally accepted and appreciated the services, that the services were comparable to those of the typical FAA-operated tower.

We have progressed far enough, I think, in our work at this point on behalf of the committee that I can say generally that we do not see our previous findings changing dramatically. We will be refining our data and providing all of that to the committee, but I think generally we will come down to where we were before. The picture has not changed a whole lot because the number of contract towers has not grown much. They have continued to be operated, we think, fairly well, just as they were 10 to 15 years ago.

We understand that part of FAA's budget request calls for a change in the funding ratio to increase the cost share, in fact, that the local communities would be required to pony up. That has not been part of our ongoing study. Rather, we have addressed the safety and use and cost aspects for the contract tower program.

Mr. WOMACK. You mentioned audits. What is the methodology? As I recall back when the city where I was mayor first got into the contract tower program, somebody from FAA shows up, or maybe it was a contractor, and they sit in an area where they can observe the runway, and they count operations. Is that still the methodology? Is that how they base this funding formula?

Mr. SCOVEL. How FAA does it? I do not know, sir. I would need to get back to you. And I do not know that my staff has sat down with that——

Mr. WOMACK. But when you refer to audits, what specifically are you looking at in the audits?

Mr. SCOVEL. Right. We are looking at the performance of the contract tower program. We are looking at anecdotal evidence that we will take from the users as well as from the contractors. We are also comparing costs between FAA-operated towers of comparable size and complexity with those under the contract tower program. We are trying to establish a series of measures between the two sides of the program, one FAA operated, the other contract tower, so that we are evaluating or attempting to reach conclusions based on apples-to-apples comparison.

Mr. WOMACK. One of my concerns—and I am only recounting from memory. There was not a weighted factor in this program toward airports that had a lot more jet engine operations, the number and type of jet aircraft that are coming in and out. My city was unique because I happen to have a pretty sizable five and dime company there that has its fleet of aircraft based there and a lot of vendor traffic coming in and out of that airport. And I always thought it was a pretty good deal because it was very close to where they are trying to work, and it did not compete with the passenger issues over at Northwest Arkansas Regional.

So do they ever look at the type of aircraft using the airport? Does that go into the formula?

Mr. SCOVEL. I would need to check with my staff, sir, to see whether we have looked into FAA's decision-making process to see whether that is, indeed, a factor that they would consider.

Mr. WOMACK. Very good. I will come back.

Mr. SCOVEL. I would be happy to come back to you, sir, with a question for the record.

Mr. WOMACK. Thank you very much, but it is still on my mind, as you know.

Mr. SCOVEL. We understand.

Mr. WOMACK. Thank you, sir.

[The information follows:]

Steve Womack

House Committee on Appropriations

Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies

Questions for the Record – March 29, 2012, Hearing

Federal Contract Tower (FCT) Program (For DOT IG)

Question: The Federal Contract Tower Program and FAA's cost-benefit methodology.

- What methodology does FAA use to determine contract tower funding?
- Does the benefit-cost model account for different types of aircraft?

DOT OIG Response:

The Federal Contract Tower Program has—and continues to be—an effective program for providing air traffic services. FAA relies on cost-benefit analysis to determine funding levels for contract towers. This methodology assesses benefits associated with safety and efficiency as well as various costs, including controller labor and capital investments. We have not evaluated the strengths and weaknesses of FAA's methodology.

According to FAA, the main driver for a successful cost-benefit analysis is overall air traffic operations. Also, FAA's analysis considers the number of aircraft operations and forecasts at each airport by class of airspace user (i.e., air carrier, commuter, general aviation, and military). According to FAA, each forecast is further broken down into aircraft types, which includes regional jets and turboprop aircraft. FAA states that its methodology accounts for over 30 different aircraft categories. However, it is unclear if FAA's analysis can distinguish between a general aviation business jet that is operated for revenue purposes (such as an air ambulance or charter) and the same type of jet used for corporate use. FAA's analysis also does not attempt to consider the wider economic benefit to a community from the presence of a tower.

FAA is currently updating its cost-benefit methodology for contract towers. According to FAA, the Agency's new methodology includes better information on FAA's capital and operating costs taken from the Agency's cost accounting system. While the inclusion of these costs can further refine the cost-benefit equation, FAA officials tell us that the key factor remains the overall level of air traffic operations. FAA has not yet finalized its updated methodology and has only recently begun to engage stakeholders on planned changes to its approach and the potential implications.

Mr. LATHAM. Thank you, Mr. Womack.

Mr. Scovel, the Federal Transit Authority's fiscal year 2013 budget once again requests $45 million for new, unauthorized rail safety oversight activities. We denied the request last year, and the reports by both the DOT IG and GAO regarding FTA's ability to simply compile reliable incident data do not give me a high degree of confidence that the FTA even knows how to go about setting up this organization. And based on the IG's January, 2012, report and GAO's January, 2011, report, FTA is still trying to figure out the accident universe and how exactly they would create a safety office.

In your opinion, does the FTA have the ability to mandate the quality and type of data the States enter into the rail accident database? And, if so, what is hindering them from doing it now?

Mr. SCOVEL. Thank you, Mr. Chairman.

We did report in January, 2012, on what FTA could do now using its present authority to position itself should Congress give it extended authority in the rail transit safety area. We homed in on a couple of things, and they had to do with data.

We looked at the national transit database to see what elements FTA should be including in that, and recommended FTA identity data gaps. They agreed and are working with an advisory group on a near-miss/close-call data element, similar to what FAA uses as it evaluates air traffic incidents.

We also recommended, because in addition to the quality of the data in the database, in order to have any hope of making improvements in any safety program, you need to have a baseline as to what incidents are. And one data element that we considered essential in establishing a baseline was the number of fatalities attributable to rail transit accidents. GAO has reported, I believe, 13 fatalities over the period roughly mid-2000s to current. Certainly that is an important element. But we would recommend as well that FTA in its performance plans and reports include that.

FTA declined. While they accepted our recommendation on identifying data gaps in the transit database, they declined this recommendation. Because they do not have enhanced authority, they declined our recommendation to start separately reporting rail transit fatalities.

Mr. LATHAM. Mr. Herr.

Mr. HERR. I would just like to add, Mr. Chairman, that in doing this work we do think that FTA needs to do a much better job of improving the quality of the data. When we looked at this in 2011, as the Inspector General mentioned, we could not even examine trends because there were so many inaccuracies. So certainly a good starting point is looking at the data, getting that cleaned up.

We understand there is some work under way to improve some of the data screens. We have not gone back to look at that, but that is certainly an important base for any sort of safety initiative.

Mr. LATHAM. In the IG's report, a number of parallels were drawn between the safety oversight done by FAA and FMCSA and the FHWA and what could or might be done at FTA. I would note all those agencies have responsibility because they have interstate transportation in these modes, and it would be next to impossible or it would be very expensive to require 50-plus identical oversight

agencies for commercial aviation or motor carriers. Very few transit rail agencies cross State lines.

I think we are all in favor, certainly, of safer systems, but in light of the lack of interstate commerce as applied to transit and the other issues identified in your report, what specific reason can you give for requiring a Federal oversight office?

Mr. SCOVEL. Well, from our discussions with the administrator and others on the Secretary's staff, they believe that, given albeit a limited number of transit systems that do cross State lines, that there is a clear Federal role.

They also see at the local and State level serious deficiencies in the quality of oversight provided by—for instance, just to use the crash here in Washington as the most recent example—the very limited oversight that the safety office for that system was able to provide. There is a gap, and in order to bring consistency and to raise the quality of safety, sir, they would indicate a Federal role.

Mr. LATHAM. Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman.

We will keep you on the hot seat for a bit, Mr. Scovel.

Your budget requests adding 27 FTEs to your permanent staffing mode. My understanding is that you had a much larger number to deal with the Recovery Act and that funds from the Recovery Act, which were not necessarily yearly as appropriated, were carried over to allow you to do that so that now you are asking for 27. Are these 27 for ongoing Recovery Act work or do they relate to just being able to continue the rigorous oversight that OIG conducts of the general agencies under transportation?

Mr. SCOVEL. Yes, sir, thank you for the question, and we appreciate your and the entire committee's keen interest and strong support of our office over the years.

We do, first, wish to acknowledge the very difficult fiscal environment in which all of us are forced to operate these days and the difficult decisions that this committee must make.

Sir, as I sit before you today, I must say that I am in fear, and I would be remiss in my duties as Inspector General if I did not tell you that I fear for the ability of my office in the future to conduct its statutory mission to keep you fully and currently informed.

We have had the benefit over the last couple of years of an additional appropriation, specifically under the Recovery Act, so that we could hire staff as needed to accomplish the extra oversight that the Recovery Act responsibilities entail, and we did that. We are in the process now of seeing that staff walk out the door, and our recovery funds have diminished greatly, and they will either expire or be totally expended within the next year or so.

Given that situation and where we look at where our baseline appropriations are, we see our FTE level, our strength level at the lowest it has ever been historically, since 1978, since the Inspector General Act was enacted, and we also see the Department's funding and safety responsibilities and fiscal programs expanding.

Mr. OLVER. Well, how long do you expect to do oversight on the Recovery Act project?

Mr. SCOVEL. Some of our Recovery Act oversight will continue as long as those programs continue.

Mr. OLVER. Until all the money is expended or far beyond when the money is expended or what?

Mr. SCOVEL. Until 2015 or 2016, for instance, on some of the high-speed rail projects. Some of the Secretary's TIGER program grants will continue as well.

Mr. OLVER. Well, I am hearing, then, that you need this in order to do the Recovery Act because those monies are running out.

Mr. SCOVEL. Yes, sir, but——

Mr. OLVER. But also you need it for your regular programs; is that right?

Mr. SCOVEL. Yes, sir. And, in fact, I would weight my answer, if I could, more strongly on the latter, and that is on our ability to conduct oversight Department wide.

Mr. OLVER. Okay. Well, let me go on, then. Your top management report notes, among other things, that there is great need for transit FTA to exercise more oversight on rail transit, that the NHTSA, the National Highway Traffic Safety Administration, needs to improve its processes for identifying vehicle defects, that the Pipeline and Hazardous Materials Safety Administration must strengthen integrity management programs and ensure that States carry out their pipeline safety responsibilities.

Each one of those agencies has asked for additional money. The chairman pointed out that FTA had asked for $45 million, 70 FTEs. GAO, you have said that they have to have better quality of data. They are asking for 70 new FTEs there and $45 million.

Well, the processes of getting—gathering data and so forth go far beyond. The actual costs of the employees may only be 7 to 10 million bucks out of the 45. It is a much larger request.

The pipeline and hazardous waste has asked for an increase of 75 FTEs, and NHTSA has asked for 45 FTEs. You, GAO, and I think they have problems that they ought to be addressing.

Do you then support—either or both of you—support the needs for those additional FTEs in those other places?

Mr. SCOVEL. Sir, we have identified the need. In some of those instances, we have not been able yet to pin down what analysis has gone into the request for a specific FTE number from some of those agencies.

Mr. OLVER. Do you have a comment on that, sir?

Mr. HERR. We have not looked at these individually, but we did a recent report dealing with FMCSA and we highlighted where several more FTEs could allow them to do quite a bit more oversight of the trucking sector, as one small example.

Mr. OLVER. Thank you.

Mr. LATHAM. We will come back. Thank you, Mr. Olver.

Mr. Dent.

Mr. DENT. Thanks, Mr. Chairman.

Mr. Montoya, I would like to follow up on Chairman Latham's question about Philadelphia and the spending there. I guess I heard numbers about $5 million in attorneys' fees to essentially obstruct HUD investigations and that particular problem. Could you elaborate a little bit on what has actually been going on in Philadelphia? Is this really relevant to their public housing entities?

Because, as you know, we have had problems over the years. We have had problems with the housing authority that were, let's just say, well documented. If you could just expand on your answer.

Mr. MONTOYA. Yes, sir.

Well, to clarify, over a period in 2010 our acting IG at the time had sent a memo to the Assistant Secretary for Public and Indian Housing and the general counsel, and at that time he identified over a 40-month period where Philadelphia Public Housing Authority had actually expended something on the order of $30 million in legal expenses.

Subsequent to that we went into——

Mr. DENT. Over what period of time?

Mr. MONTOYA. Well, this would have been November, let's say, of 2010, so the 40-month period before that. So we are talking maybe 2007 or 2008 to about 2010. They had expended about $30 million in legal fees. We are not sure what all of that was for.

So we went in and did an audit. Out of about a $5 million number we had picked to audit, $4½ million of that was unsupported. They could not support really what the expenditures were.

But as part of that audit and as part of subpoenas we had issued, they expended $1.1 million to basically fight us on our own subpoena. We had requested information from the housing authority. They refused to give it to us. We then issued a subpoena, and it was the $1.1 million that they used to not only fight the subpoena but to argue on our authority to do the audit and oversight.

Mr. DENT. So they used Federal money to fight the subpoena?

Mr. MONTOYA. Yes, sir.

Now, in fairness to the Department, as the receiver of the housing authority, they have indicated to us that Philadelphia will be making re-payment of that money. That is supposed to be decided sometime in July this year. So we expect that that money would come back to the Department using non-Federal funds to pay for it.

Our concern is that with the $4 million that was not substantiated, what exposure then does that leave for the other $30 million. We have expressed concerns that some of this money for outside legal expenses, is really what it amounts to, is being used to have attorneys shadow my auditors as they are doing their work. Clearly unnecessary we believe, and in some cases it is two attorneys per auditor. These are funds that we have elaborated on that could be very well used for housing issues for the low income there in Philadelphia, but they are being used for outside legal firms.

Mr. DENT. So I guess you are making all sorts of attempts to recover that money, clearly, and I guess that is what we need to be doing. But it is just a sad state of affairs when the Federal monies are being used like this to fight.

You are right. This is money that should be going to help lower-income individuals seek housing.

Does anybody else have any comments on this?

Mr. HERR. Actually, I would just like to second what Mr. Montoya said.

I led GAO's work on the State of Pennsylvania on the Recovery Act, and we did work on the Philadelphia Public Housing Authority, and we had this same experience. Our auditors were shadowed

by attorneys, they were present at all meetings, and it added to the cost, and I think ultimately took away from what the Recovery Act funding could be used for, an issue we communicated to our housing folks. It was part of what I think was a broader pattern that was in place at that time.

Mr. DENT. Is work actually being done—I mean, are you satisfied that the money that they are receiving is being spent appropriately by various contractors to do work? That was an issue years ago, a big issue years ago.

Mr. MONTOYA. Well, we are still looking. We still obviously have concerns over where a lot of this money is going. We are still continuing to look and do audits in Philadelphia.

What I would like to say is the Department has forced the housing authority to use their own in-house counsel now and not expend money for outside counsel. So that is a step in the right direction.

Unfortunately, at the time the board, which should have really been providing the oversight for the executive director, was really, from what I have been told, dysfunctional. They were disbanded. The Department became the board for a short time, and I know they are working on new rules to strengthen HUD's enforcement authority, for example, the ability to make PHAs pay for mismanagement of funds.

Mr. DENT. I can go back into the early 1990s, and I remember looking at the housing authorities all across the Commonwealth, and we saw atrocious situations in the city of Philadelphia.

Where I live up in Allentown, we actually had housing authorities that actually were clean, livable units. In Philadelphia, we just had the most deplorable situations. We had civil service employees up in Allentown and other communities, and we had a better-run system. Philadelphia that was not the case.

I will not get into all the inside city politics as to why I think it was horrible, but I just hope the situation has improved. I thought it had gotten a bit better. That is why I am a little discouraged, not by you but just by what I am hearing down there. Thank you.

Mr. MONTOYA. Thank you, sir.

Mr. LATHAM. I thank the gentleman.

Mr. Womack.

Mr. WOMACK. Just one other question, and it is kind of related to what the subject matter has been, and that is an oversight question.

On Section 8—and my situation pales in comparison to the millions of dollars that are going—Federal dollars going to fight Federal Government. But a recent example in my State, we had some Section 8 homes taken back by HUD where 14, I think, of the 15 homes inspected failed suitable living standards, which would be a good catch except for the fact that this was over a cumulative period of time of several years.

And so my general question—and I do not know if this is for Mr. Montoya or Ms. Melvin or whomever—but what can we do to improve the oversight or the policies and protocols that would be able to ensure that these living standards are being met and not be ex-

acerbated over a period of time where some drastic action has to take place?

Mr. MONTOYA. From the standpoint of HUD, sir, the authority does extend down to the housing authority to be doing the inspections. The Department right now is currently working on a standardized inspection protocol so that there is some standardization across the country on how these things are inspected and what they would be looking for. We are doing some work now with Maine housing and a couple of others. There was some news articles about a lot of the same issues that you are discussing, living conditions, lack of running water and some of these sorts of things.

Mr. WOMACK. Not to interrupt, but you talked about standardization. Running water—and I do not know if the cases I am talking about here are running water, but that really should not be a standardization issue, should it?

Mr. MONTOYA. Well, to the extent that your inspector is going to go in there and only going to look at what is on his sheet to look for and maybe not use some common sense in just making sure the overall unit is functioning the way it should be, I believe that is what they would be looking for, sort of a checklist, if you will, that requires you to check all these different things to say you checked it at least.

In some of the audits we have seen, you have an inspector that might go in there for 10 minutes, look around. As long as he does not see a wall falling down, he writes it as a clean bill of health and walks out, really does not do any checking per se.

Mr. WOMACK. That is kind of lazy.

Mr. MONTOYA. I could not agree with you more, sir.

Mr. WOMACK. Are there punitive actions that occur when things like this happen? I mean, is there an accountability trail?

Mr. MONTOYA. I do not know, sir. I would have to get back to you.

I think part of what the Department has faced with regards to its IT system is their systems are not robust enough to allow, for example, an inspector to go in, go back to the office, upload a report, maybe even pictures, and so there is none of that going on. So from a standpoint of clear oversight, unless you are going to take the hard copy file of what the inspector filed, you may not have the opportunity to really see what he or she has seen and be able to sort of do the checks and balances.

What I can tell you is that at least the Department is working towards, again, a standardized sort of view. We are continuing to work on that and providing recommendations on what we think they can do to sort of firm up the concerns, but it all does fall back on the inspector doing the quality work that you would expect him to do if you are paying him to do that. So some of that is human—sort of the human condition on what you will or will not do for a paycheck, if you will.

Mr. WOMACK. You mentioned common sense in there a minute ago.

Mr. MONTOYA. Quite lacking most often, sir.

Mr. WOMACK. I would agree with that. Thank you.

Mr. MONTOYA. Thank you, sir.

Mr. LATHAM. Thank you, Mr. Womack.

I want to go back to the question of money being diverted at the airports, and you mentioned Denver and how much was being diverted there or had been diverted?

Mr. SCOVEL. A little over $40 million, Mr. Chairman, over the course of a number of years dating back to the closure of Stapleton and the building of the new Denver International Airport.

Mr. LATHAM. How were they doing it?

Mr. SCOVEL. A lot of it had to do with real estate transactions, sir, and how Stapleton real estate was valued and disposed of and what happened with that money and how Denver International did or did not come into those funds so that it could apply them to airport operations.

Mr. LATHAM. Is there a means of recovery or anything of those funds?

Mr. SCOVEL. Generally not.

Mr. LATHAM. Is it not illegal?

Mr. SCOVEL. It is illegal, sir, and the FAA on occasion does make requests or demands of airport authorities. Success varies. Put it that way.

Mr. LATHAM. Why?

Mr. SCOVEL. The inability to restore and recover those funds and to apply them, not to return them to FAA but at least to generate those funds and apply them to future airport operations. Many airport authorities find that difficult.

Mr. LATHAM. Okay, we again want to support you in your efforts to find out what diversions are taking place and how much and what we need to do.

Your office has also done some very helpful work on the FAA's En Route Automated Modernization, ERAM, program, and you found slippages of 4 years and cost overruns of about $330 million. This is a $2 billion system that FAA says is a critical building block for the NextGen air traffic control program. What has caused the delays, the cost overruns, and have they taken steps to ensure ERAM gets on budget? And, also, are they going to be able to meet their goal of complete it by 2014?

Mr. SCOVEL. Mr. Chairman, the ERAM story is a long and tortured one.

Mr. LATHAM. I did not want to hear that.

Mr. SCOVEL. Yes, sir. We are prepared to meet at length with your staff; and, in fact, we have a meeting coming up in a couple of weeks on that.

But many of the problems date back to the design and structure of the original contract, and FAA's inability to manage starting from day one. I have termed it a contract that was hobbled coming out of the gate, because it focused solely on development and not actual deployment.

In addition the testing process that FAA used to receive the initial offering from the contractor of the ERAM product to test it at the tech center in New Jersey and then to place it in the two test bed sites in Seattle and Salt Lake City—that testing process was flawed. The contractor turned over a limited version of the product to the tech center that did not yet account for all linkages to a wide range of systems needed to manage aircraft.

As it turned out, the tech center, even with an incomplete product, was unable to test comprehensively the ERAM system because it needed to be tested in a robust operating environment that can only be done in the field. But because the contract was written at the time and FAA's procedures at the time called for Government acceptance after test center testing, the Government accepted it coming out of the tech center, put it into Salt Lake and Seattle and quickly ran into significant problems.

It is a very complicated system, sir. It is software intensive, and if we have learned anything from DoD's experience over the years, anything having to do with software is bound to run into problems, and ERAM has done that. As they have tried to fix software problems—it is much like a pinball or a domino effect—other software problems are created, indeed, by the fixes. So it is a long and involved process to try to bring it up to 100 percent.

Mr. LATHAM. Have they learned any lessons? I mean, we are talking about 2016, another $5 billion as far as NextGen. Have they learned from this or are the new contracts going to be something that will work?

Mr. SCOVEL. We hope so, sir. My office has gone to great pains to point out the lessons learned based on ERAM.

Your question in the last section, sir, was can we be confident in 2014? Can we be confident with only a $330 million overrun? I write those numbers in pencil, quite frankly, sir. Because not only the results of our office, but FAA's independent study that it commissioned with Mitre points out the next case scenario would be 2016 and upwards of a $500 million overrun. So it remains to be seen.

Right now, ERAM is on pause. It has been fielded to six more additional sites in addition to the first two. FAA does not intend to proceed with any more fielding for the rest of this fiscal year so that they can try to identify the current state, which is a wise move on their part. Because two of the newer sites, Chicago and Los Angeles, are exceedingly complex, complicated air space, controllers will need to be trained. We will see how the agency handles all of that over the rest of this year, sir.

Mr. LATHAM. Do you have any comment, Mr. Herr?

Mr. HERR. Yes, I would like to just add two things.

One thing, a lesson learned that came out of some of the early work was that they were not involving controllers in the testing, and that I think was really an Achilles heel.

Mr. LATHAM. They were prohibited.

Mr. HERR. That is, I think, a common-sense point that Mr. Womack made earlier. But it is our understanding that has been corrected, and they are being brought in to do some of that, which makes a lot of sense.

The other thing in some recent work that we have done on NextGen has suggested they need to address is the ping-pong effect of some complexities with the software is integrated scheduling so they understand if a slippage in system A has implications for other systems. That will help you as an oversight committee do a better job of seeing where they are going and what the likelihood of success is.

Those are two things that we have in recent reports.

Mr. LATHAM. Okay, thank you very much.

Mr. Olver.

Mr. OLVER. I would like to try to engage Mr. Scire in this endeavor, along with you, Mr. Montoya.

As part of the Nation's response to the housing crisis, there have been a number of new programs at HUD that focus on reducing the number of foreclosures, restructuring existing mortgages, and stabilizing communities in distress. At the same time, HUD is expected to carry out its core mission areas and maintain the integrity of these core programs. What effect have these new programs, particularly in the single-family area, had on the oversight of core programs?

And I would like you each to give us your perspectives.

Mr. SCIRE. Right. So I think you are talking about the emergency homeowner loan program and the HAMP programs as it relates to FHA. We have not looked specifically at what sort of resources the Department is devoting to the development of these, and I would add to that the Hope for Homeowners program and the FHA short refi program.

We are currently doing some work taking a look at foreclosure mitigation programs across the Federal Government, including FHA, VA, USDA, as well as the Treasury programs, and so we think there is some things that could be done to improve how those programs operate, and we are working on that right now. So I think that there are things that they could do to more effectively and efficiently operate these programs.

There is some benefit potentially for effective foreclosure mitigation, because it could reduce, for example, potential claims, ultimately. So although there may be some resources devoted to this, there could be some payback to it as well.

But we have not looked specifically at what resources were devoted to development and management of these particular programs.

Mr. OLVER. Mr. Montoya.

Mr. MONTOYA. I would echo the GAO's position, sir.

We have taken a look at really how that relates to the staffing and what they are doing specifically to oversee it. We certainly see the benefit to that.

Our major concern is to ensure that we do not have any more claims coming to FHA as are necessary, and we are continuing to work with them on risk-management types of issues and to be more aggressive and to look into these claims before they are paid out to ensure that there is not a way to come back and indemnify them with the lenders.

Mr. OLVER. But I think you both clearly know that they have a number of these programs which are designed to stabilize the housing market. Do you think that they have the core human resources, human capital to do these kinds of oversights when they do a bunch of new programs like that? What is the damage to the core programs in the process?

Mr. MONTOYA. I do not know what that number would be, sir. I could tell you that, they are obviously going to be spreading themselves pretty thin, but I could not give you an exact sense on how we would see that, because we have not looked at that. It is

certainly something that draws an interest in me about whether we should do that or not.

Mr. SCIRE. The concern I would raise is whether or not FHA has assessed its resource needs—and we believe FHA has not done a sufficient job of looking at what its workforce needs are. So it would be difficult for us to say whether what they have is sufficient or not. The FHA itself has not gone through and done a rigorous assessment of what resources it needs, what skill gaps it has, and then taken actions to fill them. We make recommendations in this regard in our November report.

I would also point out that FHA is facing a potential for a lot of retirements, and so we made recommendations there for FHA to do more in terms of succession planning.

Mr. OLVER. Are there programmatic reforms that they have applied in these new programs that ought to apply to others that would give them—to the older programs that would give them capacity?

Mr. SCIRE. I do not think that the newer programs are instructive for how they are running the older programs. FHA has done a lot in response to the——

Mr. OLVER. This was a crisis. This was not part of the regular programs.

Mr. SCIRE. Right. Even before the advent of Hope for Homeowners and all these others, FHA took a lot of steps to try to be more effective in use of its existing resources and to use more risk-based approaches in terms of lender oversight, appraisal reviews, and things like that. But, still, what we have not seen is for them to rigorously take a look at what their needs are.

Mr. OLVER. Do either of you have comment on how HUD and FHA are managing the record number of HUD-owned foreclosure properties?

Mr. SCIRE. We actually are just beginning an engagement to look just at that, looking at not only at FHA but also the GSEs, all of which have tremendous portfolios of REO.

Mr. MONTOYA. Sir, what I can tell you is that I have actually met with the other inspectors general from not only the FHFA but Agriculture and VA to talk about that very issue, to sort of combine our resources just to see what is going on with all the real estate owned properties. We would like to see from our standpoint whether there is any potential for fraud, abuse, mismanagement in that, the sale of the properties, maintenance until they are sold, those sorts of things.

So we are trying to do a collaborative effort for all of our programs, and we are trying to geospatially identify where these are and where might be the biggest pockets and start with those biggest pockets.

Mr. OLVER. How much new staff will each of you need to do these kinds of things?

Mr. MONTOYA. Like many, sir, I am just going to be reassigning people.

Mr. SCIRE. Using our existing resources.

Mr. LATHAM. Thank you, Mr. Olver.

Mr. Dent.

Mr. DENT. Thanks, Mr. Chairman.

I just want to focus on the HOME program for a moment.

I have heard a fair amount of comments about this program back home, generally favorable comments, about the HOME program. They see it as something that is an important program but certainly needs better accountability. I know The Washington Post did that story that was very critical.

I know HUD focuses a lot of its monitoring activities at the grantee level through the various field offices. The grantees then are responsible for monitoring their subgrantees, and I know that the audits have found that in too many cases there has been little or no monitoring and particularly at the subgrantee level.

I should ask this of Mr. Montoya. What are we doing here to ensure better accountability in the HOME program, particularly in light of The Washington Post series?

Mr. MONTOYA. With regards to the Department, we are doing a sort of roll-up, if you will, of the body of work we had done over the last 5 years. What I want to ensure is that we do not have any systemic sort of problems that we might have missed to identify that to the Department.

What I can tell you is that, historically, they have agreed with maybe, 99 percent, of our recommendations in change in oversight, so that is actually a very good thing that we are working with them on. I know they are developing new regulations to enhance their enforcement capabilities. That was asked for by Senators Murray and Collins, and I can certainly provide you copies of what we would come up with as well, sir.

So I think they are moving in the right direction, but, at the end of the day, as was the discussion with Mr. Olver, it comes down to the oversight and just what capacity anybody has. And to the extent that the local government, which has responsibility for the structure of the program, it all boils down to just being able to get in there and ask the questions they need to ask.

Mr. DENT. I will yield back.

Mr. LATHAM. Thank you, Mr. Dent.

Kind of on the same subject, but, Mr. Montoya, the Integrated Disbursement Information System, the IDIS, in HUD is supposed to track how CDBG and HOME grant dollars are used by States and localities. However, both the IG and the GAO have repeatedly found serious data integrity flaws at IDIS. They cannot fully account for the full life cycle of a grant, nor can it show the fiscal year in which the funds were provided.

Congress allows grant funds to remain available for a certain period of time, and when that time expires leftover funds should be returned to the Treasury. Because HUD is not tracking funds properly, you recently found hundreds of millions of dollars in unexpected balances that HUD failed to recapture and redistribute in a timely manner. Some of these funds were appropriated as far back as 1992, and some were associated with contracts that were already expired. How can HUD return expired funds to the Treasury if it does not even keep track of where the funds are appropriated?

Mr. MONTOYA. Well, sir, that goes back down to the very archaic information technology and core financial system that they operate under.

Mr. LATHAM. Come on.

Mr. MONTOYA. Well, it does go to part of that, sir. Without systems that can actually help you track money, it is very difficult to be able to figure out where the money is going and how you are spending it.

Our concern with regards to the IDIS system is that they do use this First in, First Out, FIFO, system where monies that would come in, irrespective of fiscal year identification, are the first ones that are expended. And so you are right. There is no identification by fiscal year.

We look at it from the standpoint of it not being in compliance with Federal financial management system requirements. They are looking at it more from a programmatic, how do you operate the program.

Because they did not agree with our recommendation, our findings, we have sent it over to GAO, who is now doing a review. There actually may be more wide scope impact to other government agencies, so they want to look at the entire thing before they opine on which is it and what, if anything, HUD should do to change it.

So it is at this point with GAO, and I know they are looking at it closely to make that determination. I just do not have any updates for you.

Mr. LATHAM. Do you have any comments?

Mr. SCIRE. No, that is with another group within GAO, but I would be glad to get back to you with an answer on the status.

[The information follows:]

After GAO received the request for a legal decision from the HUD Inspector General, we requested that HUD–OIG complete follow-up audit work to demonstrate concrete examples of the problems that HUG–OIG alleged were occurring. HUD–OIG completed that work in late November 2011. On January 11, 2012, GAO sent the Chief Financial Officer of HUD a development letter to obtain HUD's legal views on the issues and establish a factual record on the issues raised by the Inspector General. On February 17, 2012, HUD provided its response. GAO is currently analyzing that response, as well as conducting follow-up meetings with both the OIG and CFO staff. After that analysis is completed, GAO will issue a legal decision on the matter.

Mr. LATHAM. Okay. I think one of the most troubling things is that all the data is self-reported by the grantees and subgrantees and there is no verification at HUD. So, basically, the grantees choose the data they will share with HUD, and they can adjust or change that data at any time without permission from HUD or without HUD even checking the data. And it is not surprising that you found that many data flaws, including unsupported contracts, inflated contract amounts, and underreporting of program income by grantees.

To make matters worse, HUD relies heavily on this data. They have no control whether it is good or bad, using it to justify its budget to report how the CDBG and HOME programs are working and to monitor the grantees.

When HUD uses the grantees for their basis of information, can you have any confidence in what the IDIS data and what—maybe either one of you or both of you could mention what we need to do to improve it.

Mr. MONTOYA. Well, certainly as part of a lot of our recommendations over the course of the last 5 years, that has certainly been

on the top of the hit parade, if you will, on our recommendations. I know that they are making changes. The new regulations that they are proposing will address many of those issues.

You know, I must state I have actually met with that Assistant Secretary. Again, they have accepted quite a few, 99 percent, of our recommendations, so it is not that they are not trying and do not want to make these changes. Some of them are a function of old systems and just nobody really looking and coming in to ask, but those are being changed. We will continue to monitor it. We will continue to work with them. We are certainly looking forward to GAO's response.

Mr. LATHAM. But is the data—can you rely on anything?

Mr. MONTOYA. Well, I guess it would go down to the integrity and the ethics of the person putting in the data. But you know the old saying, sir, garbage in, garbage out. Unless we can really satisfy ourselves to the validity of the data, its ability to be changed at anytime, obviously we would always question that.

Mr. LATHAM. Right, so they can adjust it themselves whenever they want?

Mr. MONTOYA. Yes, sir.

Mr. LATHAM. Yes, Ms. Melvin.

Ms. MELVIN. Thank you very much.

I would just add that as one of the seven transformation initiative projects that HUD is currently undertaking, their HEARTH IDIS system, there is a release that is related to improving the grants management effort, and that is currently under way in terms of their overall efforts on IT management.

Mr. LATHAM. Okay, thank you.

Mr. Olver.

Mr. OLVER. Thank you.

We are now about to start a quick process I think since votes are now being called again, so I am going to—I could go on on other places, but I want to just ask you perhaps an odd question for us.

Both you in your oversight responsibilities and your organizations and this committee in our oversight responsibilities, we often spend a majority of our time focusing on the underperforming programs and agencies. I wonder, are there agencies or programs that consistently perform at a high level and demonstrate management strategies that could be transferred to other places? Do you ever think about that? Or is it so much not in your DNA that you could judge that?

I would like either of the IGs and you at the GAO to make short answers to that.

Mr. SCOVEL. Mr. Olver, I hope no one asks for me to surrender my IG credentials as a result of my answer, but I must acknowledge, as I constantly do with my staff, that we want to give credit where credit is due. And while I would be reluctant to give blanket approval to an entire agency within DOT, I can certainly say, program by program, FAA, FRA, and FTA, are doing many things quite well—starting with Recovery Act implementation from the Secretary on down, the focus on fraud prevention, Federal highways and establishing national review teams to go out and look at State implementation using recovery funds.

FTA had $423 million in recovery money invested in a major transit center in New York City and put in extensive controls to ensure that that was handled right. FMCSA is now focused on bus safety like they never have before. Administrator Ferro is like a dog with a bone on this one, and that is exactly what it takes. They have data challenges, database challenges as well, as we have talked about extensively this morning, but they are trying to get their arms around it.

Mr. OLVER. Well, you cannot take all of my time. Let somebody else have a bit at that answer here, okay?

Mr. SCOVEL. Very well.

Mr. MONTOYA. I will promise to give you a short answer, Mr. Olver.

Yes, and certainly within our audits we do pay credit where credit is due, and we have acknowledged that there are some best practices in some of the programs.

The biggest thing I would probably tell you in my short tenure there is, having met with the Assistant Secretaries and the Secretary, they really are in my opinion at this point pretty open to these dialogues and discussions. We have had some very poignant discussions on many of these issues.

I think the example of the HOME program, where they take many of our recommendations and they are trying to better it, shows me something good. It does not mean that it is all perfect. But certainly we are willing to give credit where credit is due, sir.

Mr. HERR. On the DOT side, a couple programs and efforts come to mind. The TIGER grant program that was started under the Recovery Act, one thing that we have noticed with transportation, a lot of the programs, as you know, are formula based, but this is an effort to identify programs that cut across jurisdictional lines. We looked at it a few years ago and gave it fairly good marks. There were issues about transparency in some of the decision making, but that is a big move away from the formula programs.

On the NHTSA side, we have seen establishment of performance measures, working to improve some of the data, sharing some best practices among the States.

On the FAA side, the airline fee disclosures that have gone into effect, and the tarmac delay rules have certainly benefited consumers.

Mr. OLVER. Well, I am glad you could came up with something relatively specific.

You folks for HUD?

Ms. MELVIN. My perspective is from the information technology side of things, and we have issued reports that have identified a number of areas of concern—which Mr. Montoya has already alluded to relative to their IT management controls—which really pervade all of the information technology systems that the department is either undertaking through the transformation initiative or otherwise.

As a part of our work we have been reviewing expenditure plans that the appropriations legislation required HUD to develop to account for and explain its spending of money on the particular initiatives that it is undertaking under the transformation initiative; and what we have found is that, through recommendations that we

have made, they have made a lot of progress relative to providing information in those plans that have made them a valuable tool for oversight.

So it is one of the main things that is emphasized in our statement in terms of seeing them take initiative to really articulate in those plans how they are spending the money, and how those particular initiatives are supporting or will support their mission overall. So that is an example where we have seen them actually taking some steps in a positive direction, recognizing that there is more to be done.

Mr. OLVER. Do you have a simple answer of one or two agencies that you deal with or subagencies that you think are high performance?

Mr. SCIRE. I will make it simple. I think that what we saw in the Recovery Act implementation by HUD is that they moved out very quickly in the public housing area and the TCAP area. And TCAP is noteworthy in a way because it is a whole new program. So they really put this together fairly quickly, and I think we have reported they have done a fairly good job in getting the money out the door.

FHA has served a real countercyclical role in the mortgage market, and that has been, I think, an important role for it to play. The ultimate cost of that is not yet known, but it is difficult to say where the mortgage market would be if it were not for FHA being there.

Mr. OLVER. Thank you.

Mr. LATHAM. If you have some more questions, we will make this your last chance unless you are——

Mr. OLVER. It is okay.

Mr. LATHAM. You are done? Okay.

Just very quickly, Mr. Scovel or Mr. Herr, I wanted to just ask you, does DOT do a good enough job in responding to your findings and recommendations?

Mr. HERR. One challenge that we have had with our reports is we often do not get a written response to our products. So we will get an oral comment, and one of the things that makes it difficult from my perspective is that we do not necessarily get a departmental position on our recommendations. There is a required 60-day letter that follows that goes to the oversight committees. This is an area that we have been talking with the Department about.

But I do think in terms of helping committees do oversight and getting an articulated position on an area such as rail safety data, some of the FAA issues, I think it would be helpful to be able to pick up a report and get a clear picture of what the agency's response is and a commitment to making some changes or correcting things going forward.

Mr. LATHAM. Thank you.

We will be submitting questions for the record here to each and every one of you, but this is kind of a weird question probably, but is there anybody here or would anybody like—is there something that you would just like to scream to the world? I mean, is there anything you really—that we have not asked, that you would like to really bring up? Is there something that really bugs you or something that really needs to be aired?

Mr. SCIRE. Yes, I think that we have made some recommendations to FHA for how it can better measure the economic value of the MMI fund, and we think that is a very important thing for FHA to move forward on. We have had year after year after year of cost estimates of that have had to be reestimated, and this year it was a $9 billion reestimate in costs alone. So we think there is a lot more that FHA could do to present what the economic value of the MMI fund is so that the Congress would have more reliable information on the costs that it faces.

Mr. LATHAM. Okay, thank you.

Mr. HERR. One of the areas I would be remiss if I did not mention, GAO has transportation financing on our high-risk list. We have a list of agencies and programs that we very much want to bring to the attention of Congress, and certainly you are going into a vote now today on dealing with reauthorization issues and pushing that forward. We have made tremendous investments in our Nation's infrastructure. Going forward, it is obvious we need to find ways to maintain and sustain that. If there is something worth shouting about in transportation, I think that is it.

Mr. LATHAM. Yes?

Ms. MELVIN. If I may speak to HUD's information technology again, I mentioned in my previous response that we had looked at their expenditure plans at a high level. In those plans, we were looking primarily to see the value added in terms of information that HUD provided for oversight purposes.

What I would add from a significant standpoint is that moving forward we do feel that there is a greater—a larger need to look more in depth at what HUD is doing. While we see them making progress relative to their information management, information technology management, we do recognize that there are a number of areas that they still have not implemented our recommendations on relative to having policies to make sure that they can execute against their enterprise architecture or to evaluate the success of their information technology projects.

So for fiscal year 2012 one of the things that we will be doing is taking a more in-depth assessment of how HUD is actually performing relative to evaluating some of its projects from a project management and other IT management perspective.

Mr. LATHAM. Very good. Thank you.

Yes, Mr. Scovel.

Mr. SCOVEL. Yes, sir, from Transportation, if I may, it has been stated many times by the Congress and acknowledged by every Secretary that transportation safety is the Department's number one priority. We have three items that we commend to their and your attention.

First, with regard to operational errors and how those are counted, so that we can get an accurate count, establish the baseline and then investigate it and analyze it, and identify a key area for FAA.

The overall area of pipeline safety has attracted a lot of attention. The agency has put in place a lot of rulemakings over the last 10 years. Now it is looking for authority and even staffing to enable it to move forward further in that area.

Bus safety as well. I mentioned Administrator Ferro's efforts. She is, frankly, stymied by this question of reincarnated carriers.

You close down one because of safety enforcement action. They pop up with a new corporate identity but operating with the same driver, same route, and same equipment. They need to do a far better job with their database. Rather than expanding what they intend to look at, they need to refine so they can home in on those reincarnated carriers.

Mr. OLVER. Mr. Chairman, would you yield for a moment on that point?

Mr. LATHAM. I would be honored to yield.

Mr. OLVER. Do you believe that the FTA really needs authority to—more authority than they already have to deal with safety issues, to deal with the safety issues? It is a question we dealt with earlier.

Mr. SCOVEL. FTA you mentioned specifically?

Mr. OLVER. FTA, yes.

Mr. SCOVEL. Yes, I did not include that on my list of top three.

Mr. OLVER. Oh, I thought you did say on this one.

Mr. SCOVEL. FMCSA, sir, motor carriers. FMCSA certainly needs to develop its database more fully so that it can address the question of reincarnated carriers for passenger carriers specifically.

Mr. LATHAM. Very good.

Mr. Montoya, do you have a burr under your saddle anywhere?

Mr. MONTOYA. You know, sir, with only 4 short months in office and the reception I have received and the open dialogues I have had, I do not think I am there yet. It does not mean I will not get there, but I think at this point I do not, sir, thank you.

Mr. LATHAM. I am glad everything is perfect at HUD, right?

Mr. MONTOYA. It is not perfect, sir. I maybe just have not found it.

Mr. LATHAM. Okay. Thank you, Mr. Olver. Again, this is your last hearing and recognize——

Mr. OLVER. All rise.

Mr. LATHAM. No, please, do not. You have been a great, great partner, and I appreciate your great work.

To the panel, thank you on behalf of the taxpayers out there, people whose lives depend upon the services and safety and all of those issues, but you are the frontline as far as we are concerned as to giving us the information we need to try to do the right thing and to hold people accountable in the bureaucracies that need oversight. What you do is extraordinarily important, and I thank each and every one of you for what you do.

So, anyway, with that, we will adjourn the hearing this morning. Thank you.

GAO Responses to Chairman Tom Latham

House Committee on Appropriations

Subcommittee on Transportation, Housing and Urban Development, and Related Agencies

Questions for the Record – March 29, 2012 Hearing

Resource Targeting in Safety Programs (For DOT IG and GAO)

In the case of our nation's aging bridges, both the DOT IG and GAO have recommended that the Federal Highway Administration (FHWA) should encourage states to use risk data to apply safety funds to the most deficient bridges. What more can FHWA do to ensure states are spending limited funds on the infrastructure that needs it most?

As we reported in 2010, one in four bridges were classified as deficient, based on FHWA's Highway Bridge Program (HBP).[1] Federal funding levels provided in the recent authorization were lower than what FHWA estimated is necessary to address the backlog of bridge work. HBP provides federal funding to states for a variety of activities intended to improve the condition of bridges. The HBP's statutory goals do not focus on a clearly identified national interest, but rather include improving deficient bridges and supporting preventive maintenance, among other broad goals. Because of the broad goals, almost any bridge in the country can include projects eligible for HBP funding. Thus, planning for how HBP funds are spent is generally under the control of state DOTs that have flexibility to select bridge projects.

We reported in 2010 that the effect of federal investment on bridges is difficult to measure, in part because there are no comprehensive and complementary data for state and local bridge spending.[2] This makes it difficult to distinguish the impact of HBP funding on bridge conditions, which is important to understand the outcome of past spending and to determine how to best invest federal resources. In addition, the program lacks measures linking funding to performance and does not utilize tools such as bridge management systems for analyzing bridge data to help manage bridge assets and more efficiently allocate limited resources among competing priorities.

In terms of what more FHWA can do, we recommended in 2008 that the Secretary of Transportation work with Congress to (1) identify and define national goals for HBP, (2)

[1] GAO, *Highway Bridge Program: Condition of Nation's Bridges Shows Limited Improvement, but Further Actions Could Enhance the Impact of Federal Investment,* GAO-10-930T (Washington, D.C.: Jul. 21, 2010).

[2] GAO-10-930T.

develop and implement performance measures, (3) identify and evaluate best tools and practices, and (4) review and evaluate HBP funding mechanisms to align funding with performance.[3] In response, DOT generally agreed with our recommendation and has worked with Congress to take action, pending the current transportation reauthorization.

Another opportunity for resource targeting is in the Federal Motor Carrier Safety Administration's (FMCSA) new-entrant audits. Right now, FMCSA audits all new-entrants in the passenger bus and household mover sectors. However, they are only 2% of all motor carriers, while the freight sector makes up 98% of motor carriers. GAO and the IG have found that FMCSA can expand its new-entrant audits to the freight sector, but only if it uses risk-based data to target its resources to the riskiest new entrants. Can you explain how FMCSA could accomplish this?

FMCSA audits new entrant freight carriers, along with new passenger bus and household goods movers within 18 months of first registering with FMCSA. However, unlike passenger bus and household goods movers, freight carriers are not subject to FMCSA's vetting program, which examines new applicants when they first register as a new carrier. Expanding the number of carriers covered under the vetting program would be useful for identifying at risk freight carriers before they begin operating on the nation's highways. GAO reported that FMCSA could expand its current vetting program to the freight sector by targeting its resources to motor carriers that present the highest risk of becoming chameleon carriers—motor carriers who registered under a new identity in an effort to evade detection by FMCSA.[4] FMCSA could use its own motor carrier registration data to identify carriers that have attributes similar to those of chameleon carriers. Our 2012 report identified these carriers through the application of two criteria: 1) a carrier submitted registration information—including carrier name, employer identification number, social security number, phone number, and address, among others—that matched a previously registered carrier, and 2) the previously registered carrier had a history of safety violations or had filed for bankruptcy. Our analysis identified 1,136 carriers with chameleon carrier attributes in 2010, representing 1.7 percent of all new motor carrier applicants for that year, which we believe is a manageable number of carriers for FMCSA to investigate through the vetting program. We recognize that our method is but one possible way of targeting at risk carriers, and other methods could be examined. FMCSA would need to periodically evaluate the effectiveness of and refine any method it undertakes, based on the knowledge gained by officials as they investigate and learn more about the attributes of chameleon carriers.

---

[3] *GAO, Highway Bridge Program: Clearer Goals and Performance Measures Needed for a More Focused and Sustainable Program*, GAO-08-1043 (Washington, D.C.: Sept. 10, 2008).

[4] GAO, *Motor Carrier Safety: New Applicant Reviews Should Expand to Identify Freight Carriers Evading Detection*, GAO-12-364 (Washington, D.C.: Mar. 22, 2012).

Highway Trust Fund is Unsustainable (For GAO)

GAO's written testimony mentions the unsustainability of the Highway Trust Fund. FHWA estimates the Trust Fund will run out of money in the summer of 2013, if we continue to spend at current levels without new revenue. CBO says the Trust Fund could sustain only $9 billion in FY13 highway spending, while maintaining a prudent balance of $4 billion, if there is no new revenue.

What will happen if Congress passes a bill appropriating $39 billion out of the Trust Fund in FY 13, without providing any additional revenues?

Among other things, the Antideficiency Act prohibits FHWA from reimbursing states unless there are sufficient funds available in the Highway Account of the Trust Fund.[5] If sufficient funds are not available and FHWA makes a disbursement to the states, then FHWA would violate the Antideficiency Act. Therefore, if the Highway Account balance approaches zero, payments to states should stop.

If the Trust Fund is short on funds in the middle of FY13, what can FHWA do to ensure equity and fairness to states that will be seeking reimbursement for ongoing projects?

When the Highway Account was almost drawn down to a zero balance in 2008, FHWA officials closely monitored payments to the states to ensure the agency didn't incur expenditures in excess of the funds in the account and considered slowing down the payment frequency from twice daily to once weekly. FHWA also considered making prorated payments to states—based on the percentage of funds available to cover all reimbursements—if the account balance dropped below $1 billion. Other methods of prorating payments could be used, such as paying a percentage of a bill submitted based on a state's annual apportionment.

As we reported in 2009, improving existing mechanisms intended to help maintain Highway Account solvency could help FHWA better manage the account balance.[6] Specifically, two mechanisms intended to make annual adjustments to ensure the account has adequate funds to reimburse states (Byrd test) and aligning outlays with actual

[5] The Antideficiency Act prohibits an officer or employee of the federal government from incurring an obligation, or making an expenditure, in advance or in excess of an appropriation. 31 U.S.C. § 1341(a)(1). The Federal-Aid-Highway Program is funded primarily with contract authority, and programs funded with contract authority can incur obligations in advance of an appropriation. However, DOT cannot make cash reimbursements to the states until liquidating cash is appropriated from the Highway Account. For example, the fiscal year 2008 Consolidated Appropriations Act provides a liquidating appropriation from the Highway Fund of $41.9 billion or what is available in the Highway Account. If there are no receipts in the Highway Account, DOT would incur an expenditure in excess of an appropriation and thus violate the Antideficiency Act.

[6] GAO, *Highway Trust Fund: Improved Solvency Mechanisms and Communication Needed to Help Avoid Shortfalls in the Highway Account*, GAO-09-316 (Washington, D.C.: Feb. 6, 2009).

revenues (Revenue Aligned Budget Authority (RABA)) have been so modified over time that they either are no longer relevant or are limited in effectiveness. We recommended that FHWA identify changes to existing solvency mechanisms—such as the Byrd test and RABA—designed to make annual adjustments to the Highway Account and communicate to Congress the potential benefits and limitations of these changes. In response, FHWA officials agreed with the recommendation, but has not yet identified changes to the mechanisms.

United States Government Accountability Office
Washington, DC 20548

May 17, 2012

The Honorable Tom Latham
Chairman
Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies
Committee on Appropriations
House of Representatives

Subject: *Responses to Questions for the Record; Hearing on the Department of Housing and Urban Development's Management Challenges*

This letter responds to your May 1, 2012, request that we address questions submitted for the record related to our statement at the Department of Housing and Urban Development (HUD) oversight hearing on March 29, 2012.[1] At the hearing, we discussed, among other things, HUD's progress in implementing our prior recommendations on modernizing its IT systems and improving its expenditure plans, changes in the financial condition of the Federal Housing Administration's (FHA) Mutual Mortgage Insurance Fund, and how FHA evaluates the fund's financial condition. The enclosure provides our responses which are based on previously issued products.[2]

If you have any questions or would like to discuss the responses, please contact me at (202) 512-6304 or melvinv@gao.gov.

Sincerely yours,

Valerie C. Melvin

Valerie C. Melvin
Director, Information Management
and Technology Resources Issues

Enclosure - 1

---

[1]GAO, *HUD Information Technology: More Work Remains to Implement Necessary Management Controls*, GAO-12-580T (Washington, D.C.: March 29, 2012), and *Mortgage Financing: FHA and Ginnie Mae Face Risk-Management Challenges*, GAO-12-578T (Washington, D.C.: March 29, 2012).
[2]GAO, *Information Technology: HUD Needs to Strengthen Its Capacity to Manage and Modernize Its Environment*, GAO-09-675 (Washington, D.C.: July 31, 2009); *Mortgage Financing: Opportunities to Enhance Management and Oversight of FHA's Financial Condition*, GAO-10-827R (Washington, D.C.: Sept. 14, 2010); *Information Technology: HUD Needs to Better Define Commitments and Disclose Risks for Modernization Projects in Future Expenditure Plans*, GAO-11-72 (Washington, D.C.: Nov. 23, 2010); *Information Technology: HUD's Expenditure Plan Satisfies Statutory Conditions, and Implementation of Management Controls Is Under Way*, GAO-11-762 (Washington, D.C.: Sept. 7, 2011); *Federal Housing Administration: Improvements Needed in Risk Assessment and Human Capital Management*, GAO-12-15 (Washington, D.C.: Nov. 7, 2011); *Ginnie Mae: Risk Management and Cost Modeling Require Continuing Attention*, GAO-12-49 (Washington, D.C.: Nov. 14, 2011); GAO-12-580T; and GAO-12-578T.

Enclosure

Chairman Tom Latham

House Committee on Appropriations

Subcommittee on Transportation, Housing and
Urban Development, and Related Agencies

Questions for the Record – March 29, 2012 Hearing

For the past few years, the Committee has been very fortunate to have GAO provide on-going audit services for HUD's information technology development and expenditures.

- **Compared to other agencies, where is HUD as it relates to IT management?**

  Our previous audit work has not specifically compared HUD's IT management to that of other federal agencies; however, in examining IT management practices at other agencies, we have identified similar concerns in certain areas. Specifically, in 2009 we reported that HUD had lacked key IT management controls needed to effectively manage and modernize its IT environment.[3] More recently, we reported that HUD had made progress in implementing key management controls but that more work remained in IT investment management, human capital, and enterprise architecture (EA).[4] This is similar to what we have found at other agencies. For example, in June 2011 we reported that while the Department of Defense (DOD) had continued to release updates to its enterprise architecture, it had not been extended to each of its components.[5] In addition, we reported that DOD continued to establish investment management processes, but neither DOD-level organizations nor the military departments had defined the full range of project-level and portfolio-based IT investment management policies and procedures necessary to meet the investment selection and control provisions required by law. In 2009, we also reported that the Food and Drug Administration (FDA) lacked key management controls in human capital and EA.[6] More recently, in March 2012 we reported that FDA had made progress, but much work remained to adequately plan for its IT human capital needs and complete its EA.[7]

---

[3]GAO-09-675.
[4]GAO-12-580T.
[5]GAO, *Department of Defense: Further Actions Needed to Institutionalize Key Business System Modernization Management Controls*, GAO-11-684 (Washington, D.C.: June 29, 2011).
[6]GAO, *Information Technology: FDA Needs to Establish Key Plans and Processes for Guiding Systems Modernization Efforts*, GAO-09-523 (Washington, D.C.: June 2, 2009).
[7]GAO, *Information Technology: FDA Needs to Fully Implement Key Management Practices to Lessen Modernization Risks*, GAO-12-346 (Washington, D.C.: March 15, 2012).

- **If "A" was outstanding, and "F" was failure, what grade would you give HUD?**

  While we have not conducted the work to offer a specific grade on HUD's IT performance, as we have noted in our previous response, the department has addressed some key management controls that are essential to successfully modernizing its IT environment. However, as we noted, more work remains. To obtain additional and more specific insight regarding the overall management and oversight of the department's IT modernization projects, we have received congressional direction to evaluate HUD's implementation of project management practices and assess the department's institutionalization of IT governance.[8] We anticipate initiating aspects of this work by the end of this month.

- **Where is HUD still lacking and how much work does HUD still have to do before you could see they have achieved the kind of checks and balances or systems in place where they could manage their IT portfolio without GAO's constant help?**

  There are three main areas of IT management in which HUD is still lacking in response to recommendations we have previously made. These areas include:
  - *IT investment management:* The department has begun establishing a new investment management governance structure and has applied it to its portfolio for IT modernization projects. However, HUD has not yet developed criteria for assessing portfolio performance, or defined and collected data consistent with the criteria. In the absence of taking these key steps, the department has continued to be challenged in implementing proper investment management practices.
  - *Human capital:* HUD began working to establish a human capital plan that included tasks such as identifying challenges, developing performance metrics and strategies, and addressing the identified IT skill gaps. HUD anticipated finalizing this plan by December 2011; however, as of March 2012, the plan had not yet been completed. Until HUD finalizes its IT human capital management plan, implementation of this management control will continue to be a challenge.
  - *Enterprise architecture:* The department has not established and approved a policy to govern the development, maintenance, and use of its enterprise architecture. According to HUD's Acting Deputy Chief Information Officer for Business and IT Modernization, this policy is still under review and approval is anticipated by the end of this month.

  To HUD's credit, its modernization expenditure plans, which are to describe how the department plans to spend IT modernization funding, have improved in response to our recommendations. Specifically, the department has shown progress toward improving the contents of its plans and, thus, provides key information needed by HUD's

[8]This direction is contained in the Senate Appropriations Committee report, S. Rep. No. 112-83, at 141-42 (2011), as approved by the conference committee in the Explanatory Statement, H.R. Conf. Rep. No. 112-284, at 286 (2011), accompanying the Consolidated and Further Continuing Appropriations Act, 2012, Pub. L. No. 112-55, 125 Stat. 552, 691-92 (Nov. 18, 2011).

appropriations subcommittees to oversee modernization projects and hold the department accountable for project outcomes.

However, understanding the extent to which HUD is following through on the cost, schedule, and performance goals set forth in its expenditure plans requires additional review. As previously mentioned, at the direction of the appropriations subcommittees, by the end of this month we intend to initiate an evaluation of HUD's implementation of key project management practices. The results of this review should provide an indication of how much additional oversight HUD needs, if any.

In the FY 2013 budget, HUD requested IT funds through the Transformation Initiative instead of through the Working Capital Fund. The Secretary believes that investments made through skimming portions of the regular appropriated program accounts will result in greater attention by the program offices.

- **Do you think this is the case?**

  As we have previously reported, since 2009, the department has taken steps to improve its attention to and management of its IT projects; however, we have not conducted specific audit work to assess whether or not the increased attention is a direct result of HUD funding IT projects through the Transformation Initiative.

- **As the IG and GAO continue looking into HUD's IT investments, based on the work you've done so far, do you think we will find an unreasonable amount of money is being spent on the maintenance of outdated and unreliable systems?**

  In 2009, we reported that HUD's IT environment was primarily focused on the maintenance of its existing systems and infrastructure, rather than on the modernization needed to meet its expanding mission needs. For example, HUD reported that in fiscal year 2008, about 2 percent of the department's IT obligations were for new development, whereas the remaining 98 percent were obligated for operating and maintaining legacy systems. More broadly, in 2011 we reported that 26 key federal agencies collectively planned to spend approximately 69 percent of the fiscal year 2011 IT budget on operations and maintenance activities.[9] While our more recent audit work at HUD has been focused on its funding for new IT investments, rather than the current spending levels on the maintenance of its legacy systems, we have reported that more recently HUD has increased its focus on new development through the implementation of seven IT modernization projects.[10] For example, HUD has been working to implement the Next Generation Management System, which is intended to reengineer management processes to establish a technical infrastructure that will integrate disparate systems and provide consistent information in order to support rental housing assistance services.

---

[9]GAO, *Information Technology: OMB Needs to Improve Its Guidance on IT Investments*, GAO-11-826 (Washington, D.C.: Sept. 29, 2011).
[10]GAO-12-580T.

- **Should HUD move to a more traditional working capital fund structure where each office contracts with the CIO or Working Capital Fund to pay for their IT services exactly what it costs the department to operate them?**

  To date, the nature of our work has been focused on HUD's IT management capabilities and the completeness of expenditure plans. We have not conducted the work necessary to determine if the department should move to a more traditional working capital fund structure.

- **Wouldn't a traditional working capital fund structure do more to motivate program offices to take ownership of their IT investments and outdated systems instead of the larger, more nebulous Transformation Initiative?**

  Taking ownership and managing IT investments in a disciplined manner is considered a best practice and is essential, regardless of the funding source and structure. More recently, HUD has taken steps to implement key management controls to encourage more ownership by the program offices. For example, the Office of the CIO facilitates bi-weekly meetings where the program offices are responsible for reporting on the status of each project. Additionally, the transparency provided through the Transformation Initiative IT expenditure plans has required program offices to be more accountable to the commitments they make on their IT investments. As previously mentioned, because the nature of our work has been focused on HUD's IT management capabilities and the completeness of expenditure plans, we have not assessed the effectiveness of the different funding structures.

The Dodd-Frank act requires lending institutions to hold sufficient capital to absorb losses during future periods of financial stress. Further, these institutions have to undergo public stress tests to determine whether they have sufficient capital to lend. FHA undergoes a similar stress test, but it has no practical effect because they do not use these scenarios in determining the health of the reserve fund. Currently, FHA's reserve fund is tenuously low where the 2013 budget assumed a $688 million infusion from Treasury to avoid a negative balance.

- **What did the most recent "stress tests" show with respect to FHA's reserve fund?**

  According to FHA's 2011 annual report to Congress[11] on its assessment of the health of the Mutual Mortgage Insurance Fund (Fund), under a base-case economic scenario, the Fund's estimated economic net worth in fiscal year 2012 would be $11.5 billion.[12] However, under three adverse economic scenarios, the assessment showed that the

[11]Department of Housing and Urban Development, *Annual Report to Congress: Fiscal Year 2011 Financial Status, FHA Mutual Mortgage Insurance Fund*, (Washington, D.C.: November 2011).

[12]FHA's assessment of the health of the Mutual Mortgage Insurance Fund included a base-case economic scenario, a more optimistic scenario, and three adverse scenarios. The three adverse scenarios assume declines in home prices ranging from about 14 to18 percent in fiscal year 2011 (worse than what actually occurred) and from about 1 to 8 percent in fiscal year 2012. Two of the three adverse scenarios assume increases in home prices of about 3 to 4 percent in fiscal year 2013, while the third scenario assumes essentially no change in home prices that year. All three adverse scenarios assume that house prices will increase by about 6 percent in fiscal year 2014.

Fund would require financial assistance in fiscal year 2012 from the Department of the Treasury to cover expected losses on mortgage insurance issued to date. The amount of financial assistance ranged from $13.2 billion under the least severe adverse scenario to $43.2 billion under the most severe adverse scenario. Additionally, FHA estimated that the Fund's capital ratio would not return to the statutory 2 percent minimum until fiscal year 2016 under the least severe adverse scenario and not until fiscal year 2018 under the most severe adverse scenario. These estimates do not reflect developments that have occurred since FHA issued its annual report to Congress, which include a legal settlement with lenders that is expected to provide FHA with more than $900 million in compensation and an increase in FHA's upfront mortgage insurance premium from 1 percent to 1.75 percent of the base loan amount.

- **What can be done to get a more accurate evaluation of the health of the Reserve fund?**

To more reliably estimate the Fund's capital ratio, we recommended that FHA use an approach called stochastic simulation, which involves simulating hundreds of different economic paths to produce a distribution of capital ratio estimates. Although FHA currently examines the financial health of the Fund under different economic scenarios, it relies on a single economic forecast to assess whether the Fund is meeting the 2 percent capital ratio requirement. As we reported in 2010, this approach does not fully account for the variability in future house prices and interest rates that the Fund may face.[13] As a result, baseline estimates of the capital ratio may tend to underestimate insurance claims and mortgage prepayments and therefore may overestimate the Fund's economic value. Conversely, when using stochastic simulation, the middle value of the distribution could be used for determining FHA's compliance with the 2 percent capital ratio requirement. FHA officials told us they have a contractor developing a stochastic simulation model in order to examine the implications of extreme economic scenarios on the Fund. However, it is unclear whether FHA will use the model to estimate the Fund's capital ratio.

- **Should Congress compel FHA to do this?**

We recommended in our 2010 report that HUD require FHA to use a stochastic simulation model to estimate the Fund's capital ratio—either as a replacement for or supplement to FHA's current methodology—and to require FHA to report the results of this analysis in its annual report to Congress on the financial status of the Fund.[14] However, FHA has not taken action to use stochastic simulation to measure capital adequacy. If Congress agrees it is appropriate for FHA to take action, it may want to compel FHA to do so.

[13]GAO-10-827R.
[14]GAO-10-827R.

Chairman Tom Latham

House Committee on Appropriations

Subcommittee on Transportation, Housing and Urban Development, and Related Agencies

Questions for the Record – March 29, 2012, Hearing

Resource Targeting in Safety Programs (For DOT IG and GAO)

Question: In the case of our nation's aging bridges, both the DOT IG and GAO have recommended that the Highway Administration should encourage states to use risk data to apply safety funds to the most deficient bridges.

- What more can FHWA do to ensure states are spending limited funds on the infrastructure that needs it most?

DOT OIG Response: Our prior work[1] has shown that FHWA needs additional data to evaluate States' use of Highway Bridge Program (HBP) funds and ensure that States are maximizing the return on investment of limited Federal dollars by targeting bridges most in need of attention. For instance, FHWA cannot link HBP expenditures to bridge improvements—a significant data gap. While some progress has been made in recent years to reduce the number of deficient bridges, maximizing Federal surface transportation investments to improve current bridge conditions, based on good data, is a major challenge for FHWA, particularly at a time of diminishing Federal resources. FHWA has expressed concern about taking action to acquire better data on bridge funding, as we have recommended, because its efforts could be affected by changes to the Federal-aid program and HBP brought about by the next surface transportation authorization bill. However, taking action now to develop improved tools to assess the effectiveness of bridge funding could put FHWA in a better position to quickly respond to new statutory requirements, once enacted.

We have also recommended that FHWA collect and analyze HBP expenditure data on a regular basis. FHWA should report regularly to internal and external stakeholders on the effectiveness of States' efforts to improve the condition of the Nation's deficient bridges

[1] OIG Report Number MH-2010-039, "Assessment of FHWA Oversight of the Highway Bridge Program and the National Bridge Inspection Program," January 14, 2010.

based on the analysis of HBP expenditure data and an evaluation of progress made in achieving performance targets.

FHWA informed us in March 2012 that it has developed a plan to collect more information on bridge projects and better track activities undertaken by the States to improve the Nation's bridges. While FHWA has yet to set a date for rolling out these enhancements, it has agreed to finish its evaluation of the proposed changes and set a target release date by September 30, 2012.

Question: Another opportunity for resource targeting is in the Federal Motor Carrier Safety Administration's (FMCSA) new-entrant audits. Right now, FMCSA audits all new-entrants in the passenger bus and household mover sectors. However, they are only 2% of all motor carriers, while the freight sector makes up 98% of motor carriers. GAO and the IG have found that FMCSA can expand its new-entrant audits to the freight sector, but only if it uses risk-based data to target its resources to the riskiest new entrants.

- Can you explain how FMCSA could accomplish this?

DOT OIG Response: Our work has pointed to the need for FMCSA to improve passenger carrier oversight and develop a risk-based process for screening passenger carriers applying for operating authority to detect reincarnating carriers—carriers that attempt to operate as a different entity in an effort to evade enforcement action, out-of-service orders, or both. In recent years, several fatal motorcoach accidents focused national attention on FMCSA's oversight of more than 3,000 passenger carrier companies that operate millions of trips per year. Similarly, the National Transportation Safety Board and the GAO have identified weaknesses in Federal oversight of these carriers.

We recently reported[2] that FMCSA does not have an efficient screening tool as part of its vetting process to help it focus limited investigative resources on the highest risk applicants. FMCSA determined that a key element of the process—a screening tool that compares data FMCSA collects from carriers—did not efficiently identify the highest risk applicants because it produced unreliable scores. The screening tool had, at times, assigned lower scores to applicants who were more likely to be reincarnations than those with high scores because they shared company officers or other essential characteristics

[2] OIG Report Number MH-2012-087, "Timely and Targeted FMCSA Action Is Needed To Fully Address National Transportation Safety Board Recommendations for Improving Passenger Carrier Oversight," April 17, 2012.

with carriers already registered with the Agency. When FMCSA found it could not rely on the scores to efficiently identify the highest risk applicants, it began to manually review all applicants with matches to preexisting carriers to ensure that no possible reincarnations were overlooked. As of April 2012, FMCSA had not implemented a revised screening tool.

If FMCSA expands the vetting process beyond passenger carriers to all motor carriers and does not develop a more risk-based approach, its existing backlog of applications waiting to be reviewed will likely increase significantly—underscoring the need for a more risk-based process. In responding to our recent recommendations, FMCSA stated that it modified the screening tool used in its vetting process to identify reincarnated carriers among passenger and household goods applicants for operating authority. Specifically, FMCSA now checks passenger carrier applicant information for matches to all carriers currently or previously registered with the Agency. Going forward, a sustained management focus is needed to determine the best method to identify reincarnation risks among existing carriers and to use that method to focus FMCSA's evaluations of motor carrier applicants on those with matching registration information.

OUTSIDE WITNESS TESTIMONY

ASSOCIATION OF
AMERICAN RAILROADS

March 6, 2012

The Honorable Hal Rogers
United States House of
Representatives
2406 Rayburn House Office Building
Washington, DC 20515

The Honorable Norm Dicks
United States House of
Representatives
2467 Rayburn House Office Building
Washington, DC 20515

The Honorable Tom Latham
United States House of
Representatives
2217 Rayburn House Office Building
Washington, DC 20515

The Honorable John Olver
United States House of
Representatives
1111 Longworth House Office Building
Washington, DC 20515

Dear Representatives Rogers, Dicks, Latham and Olver:

The Association of American Railroads, the American Short Line and Regional Railroad Association and the Railway Supply Institute urge you to oppose a punitive measure in the President's fiscal year 2013 budget calling for a new tax to cover the cost of Federal Railroad Administration (FRA) safety programs.

This tax, which the budget mislabels a "user fee," would raise $80 million in fiscal year 2013. Unfortunately, the tax would divert scarce resources that are necessary for safety-related investments in rail infrastructure, technology and equipment. Particularly at a time when railroads are being called upon to meet an expensive Congressional mandate for positive train control, we believe that such a tax would be extremely unwise.

Other federal agencies that regulate workplace safety—such as the Occupational Safety and Health Administration—do not collect user fees. The rail sector should not be singled out in this regard.

March 6, 2012
Page 2

Finally, it is important to note that the House and Senate have declined to support similar proposals advanced by the Executive Branch for more than a decade. It has been the consistent view of lawmakers that funds for FRA programs should be appropriated from general revenues. For all of these reasons, we urge you to oppose the inclusion of this new tax in the fiscal year 2013 budget resolution.

Sincerely,

Edward R. Hamberger
President and CEO
Association of American Railroads

Richard F. Timmons
President
American Short Line and
Regional Railroad Association

Tom Simpson
President
Railway Supply Institute

Statement of the Institute of Makers of Explosives
Submitted by
Cynthia Hilton
Executive Vice President
chilton@ime.org

For the Subcommittee on Transportation, Housing and Urban Development and Related Agencies
U.S. House of Representatives

FY 2013 Federal Motor Carrier Safety Administration Budget Request

Interest of the IME

The IME is the safety and security association of the commercial explosives industry. Commercial explosives underpin the economy. They are essential to energy production, construction, demolition, and the manufacture of any metal/mineral product. Explosives are transported and used in every state. The ability to transport and distribute these products safely and securely is critical to this industry. At some point, virtually all explosives are transported by truck. Among these explosives are products classed as Division 1.1, 1.2, and 1.3 materials, which with other select hazardous materials, may only be transported by motor carriers holding a "hazardous materials safety permit" (HMSP) issued by FMCSA. According to program data, carriers of explosives make up the largest segment, roughly half, of the universe of HMSP holders.

Our industry has maintained an exceptional safety record for decades. According to the Hazardous Materials Information System (HMIS), no deaths have been attributed to commercial explosives since the Department of Transportation began collecting data in the 1970s. Despite the safety record of our industry, we have members who struggle when it comes maintaining their HMSP qualification.

Implementation Issues

We will be the first to admit that we failed to appreciate the full impact of the disqualifying out-of-service (OOS) thresholds when FMCSA finalized the HMSP rule in 2004. First, the preamble and the regulatory text set forth in the 2003 proposal, as well as the preamble to the HMSP final rule, describes the agency's intent to issue HMSPs to motor carriers with a "satisfactory" safety rating.[1] Those without a satisfactory safety rating would be eligible for a temporary HMSP if they have "a crash rate in the top 30 percent of the national average, or a driver, vehicle, hazardous materials, or total [OOS] rate in the top 30 percent of the national average." (Emphasis added.) Second, the "or total" OOS rate suggested that the 30 percent national average disqualification would, in the aggregate, disqualify only 30 percent of carriers. As FMCSA has implemented this program, however, these were not the standards that a carrier could rely on to obtain a permit. Instead, no HMSP may be issued to a carrier who performs in the top 30 percent of each OOS category.

Since the HMSP program's inception in 2005, we have urged FMCSA, in meetings, letters, and petitions, to relook at this program and make needed reforms. Over these seven years, the

[1] 68 FR 49737, 49752 & 49753 (August 19, 2003); 69 FR 39367, 39352 (June 30, 2004).

HMSP program has been plagued by administrative missteps including double counting OOS inspections and thousands of erroneous denials of applications. Questions remain unanswered about the statistical basis used by FMCSA to calculate the program's most critical criterion, the hazmat OOS rate. We have documented the inherent unfairness of a system that relies on OOS rates. Roadside inspections are not random (nor should they be given limited resources), nor are they without the bias of personal judgment. Further, the methodology used to determine "significance" of the inspection data lacks statistical confidence. Even if a carrier survives this flawed qualification process, it provides no assurance that the same level of performance will enable the carrier to retain its HMSP as carriers are subject to a relative, not absolute, standard of "safety." Please know that we do not object to a HMSP; we do object to the bias and uncertainty that this program breeds, especially when the program has shown no nexus to safety enhancement.

Safety Benefits of the HMSP Unproven

FMCSA estimated that implementing the HMSP program would prevent seven hazmat truck-related crashes per year. The agency stated that the safety benefits derived from the projected crash reductions would be "large because of the number of conventional crashes that may be prevented." This has not proved to be the case. The experience after the nearly six years of the HMSP and during the six years immediately preceding the implementation of the HMSP shows that:[2]

HMSP Material	1999-2004		2005-2010		All Hazmat Highway Incidents			
					1999-2004		2005-2010	
	Crashes	Fatalities	Crashes	Fatalities	Crashes	Fatalities	Crashes	Fatalities
Explosives (1.1, 1.2, 1.3)	9	0**	13	0**				
RAM (HRCQ*)	4	0	1	0				
TIH	43	0	46	0				
Methane	1	0	0	0				
TOTAL	**57**	**0**	**60**	**0**	**1909**	**62**	**2190**	**60**

For HMSP holders, this record highlights the need for an immediate reconsideration of the disqualifying standards that are threatening their livelihoods. Keep in mind that the vast majority of carriers subject to the HMSP are not long-haul, freight-all-kinds carriers. They serve

[2] Data from the Hazardous Materials Information System (HMIS), 12/13/2011.

* It may be that none of these crashes are HRCQ. From the data in HMIS, it was possible to eliminate some incidents that were clearly not HRCQ. Where there was doubt the incident was counted.

** The HMIS includes records of two off-highway, non-crash incidents that resulted in fatalities involving materials covered by the HMSP. Both incidents involve fireworks stored on trucks, and both incidents occurred after delivery. Consequently, the American Pyrotechnics Association disputes whether these incidents are transportation-related. In 2003, four workers were killed after the local government asked that a show for another location be removed from the site. In 2009, five workers were killed while setting up a show using a truck as a workroom for assembling the display.

niche markets that rely on local, often rural delivery, and require specialized equipment. As such, these carriers do not frequent routes with inspection stations. Once these carriers get into trouble based on the non-random, often subjective OOS calls by inspectors, it is virtually impossible for these carriers to accrue sufficient "good" inspections to overcome the "bad." For example, it is not uncommon for a carrier to have less than 15 inspections in the 12 months prior to the expiration of the carrier's HMSP. If two of those inspections result in an OOS[3], it would take 56 "clean" inspections to requalify the carriers. And, the later into the 12-month qualification period the second OOS occurs, the more unlikely it is that a carrier could recover. These carriers do not have the option to carry non-HMSP freight while working to requalify for a permit. The irony is that, when these carriers get into jeopardy, FMCSA does not routinely suspend or revoke the HMSP; rather the carrier is allowed to operate until it is time to apply for renewal. The regulations allow for appeals when permits are suspended or revoked, but not if the carrier is applying for renewal.

Request for Expedited Relief

Last year, FMCSA accepted a petition for rulemaking from IME and other affected industry associations filed to reform the HMSP disqualification standards. While we are pleased that FMCSA has accepted our petition, we are disappointed that "the agency has determined that this rulemaking should not be initiated until the CSA Safety Fitness Determination (SFD) final rule is published, as it will be used as the basis for initiating this rule."[4] (Emphasis added.) We would like to strongly suggest that the HMSP rulemaking should take precedence over the SFD rulemaking. First, the HMSP program is being used now as the SFD standard for covered materials. Covered carriers that do not meet the contested HMSP standards may be shutdown. Non-HMSP carriers do not yet face this outcome. Second, the problematic HMSP disqualification standards are based on inspections and OOS determinations. These same metrics are expected to be the basis of the standards to be proposed in the SFD rulemaking. Third, the HMSP regulated community is very small relative to the universe of carriers that will be subject to the SFD. We believe FMCSA should immediately act to fix the HMSP disqualification standards and export that refined SDF model to the larger commercial trucking universe under CSA.

The agency's reluctance to immediately address the shortcomings of the HMSP is particularly troubling because implicit in FMCSA's plan to address by rulemaking many of the issues raised by industry is an acknowledgment of deficiencies with the current program. These deficiencies will persist over the intervening years between now and the time that they are resolved through the rulemaking process. The adverse impacts to the regulated community are undeserved.

Given these facts, we are concerned that neither legislation nor regulation will move fast enough to prevent relatively good carriers from losing their HMSP and, as explained, being put out of business based on limited data anomalies. We have asked FMCSA to immediately address these pressing concerns by issuing an interim final rule (IFR) to at least provide for an additional level of fitness review prior to the denial, revocation, or suspension of a safety

[3] This assumes that the OOS citation was corrected issued. CSA experience shows that FMCSA's "Data Q" process is overwhelmed and state ability and/or willingness to expend resources on these challenges is a growing concern.
[4] Letter to IME from FMCSA, November 14, 2011, page 1.

permit until such time that the agency proceeds with the full rulemaking based on our petition. The additional level of administrative fitness review would consider the safety management controls of the applicant or holder not just OOS violations rates, and it would provide the applicant or holder an opportunity to file a corrective action plan to address identified concerns.[5]

We have not heard from FMCSA whether the agency would be willing to pursue the IFR option we have described. At the same time, it is concerning to us that nowhere in FMCSA's FY 2013 budget estimate does it reference, let alone discuss, the issues described.[6] Justice will not be served by inattention to these pressing concerns. The uncertainty of when FMCSA will be able to carry out the HMSP rulemaking coupled with the urgency to take some action based on acknowledged program deficiencies compel us to ask the Subcommittee to deny funds to administer this program until FMCSA provides interim measures to ensure that HMSP holders are not denied permits based solely on the flawed disqualification standards in place now.

Conclusion

Neither IME nor its members object to the need for a HMSP. We do object to the current standards for disqualification. They are not risk-based. Inspection frequency and outcome do not seem to correlate to crashes or fatalities. Thank you for your attention to these concerns.

March 2, 2012

[5] This opportunity should not be available to applicants or holders that present an imminent hazard or evidence of a pattern willful and knowing non-compliance with safety regulations.

[6] The HMSP is mentioned once in the Department of Transportation Annual Performance Report, FY 2011, page 22, "FMCSA will continue to seek to implement programs and regulations that 'raise the bar' to entry into the motor carrier industry, including ... expanding enforcement of and compliance with the [HMSP] requirements ... ."

Testimony Regarding Fiscal Year 2013 Funding for the
Federal Aviation Administration (FAA) and
Federal Highway Administration (FHWA)
Submitted 19 March 2012 to the
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations, United States House of Representatives
by
Thomas J. Bogdan, President
University Corporation for Atmospheric Research

On behalf of the University Corporation for Atmospheric Research (UCAR), I submit this written testimony to the House Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, for the Committee record. UCAR is a consortium of over 100 research institutions, including 77 doctoral-degree granting universities, which manages and operates the National Center for Atmospheric Research (NCAR). **I respectfully urge the Subcommittee to support:**

- **FAA's Research, Engineering and Development account – $180 million including $18 million for the Weather Program and $10 million for Weather Technology in the Cockpit.**
- **FAA's Facilities & Equipment account -- $285 billion which includes $57.2 million for System-Wide Information Management (SWIM) and $23.8 million for Common Support Services.**
- **FHWA's Intelligent Transportation Systems (ITS) program – the full request of $110 million which includes $46.1 million for IntelliDrive V-V and V-I Communications for Safety and $15.5 million for Dynamic Mobility Applications.**

Life and property could be spared, and economic performance improved across the nation, if weather information were utilized more effectively by decision makers such as airline pilots, personal vehicle drivers, and the trucking industry. Over the past two and a half decades, the Department of Transportation (DOT), in partnership with NCAR and the academic community, has creatively and economically developed technologies to foresee weather-related problems and mitigate the effects of meteorological hazards, including wind shear, icing, and turbulence. Leveraging the expertise of the research community, the FAA and FHWA depend on their partners to develop weather-resilient systems and infrastructure. I would like to comment on the following programs that support continued collaborative partnerships between the DOT, FAA, and FHWA and the atmospheric science community:

Federal Aviation Administration

Current and projected growth in the volume, complexity, and economic importance of air transportation clearly demonstrates the need for a new paradigm supporting air traffic services in the 21st century. Many new factors compound the new century's challenge to safe and efficient air operations. For example, aircraft passenger and freight load requirements will be 2-3 times higher,

increasing use of polar routes will introduce new hazards to crews and passengers, and new navigational technologies that allow more flexible routing and separation of aircraft are not fully compatible with the current air traffic control system. Capacity will become an increasingly limiting factor at many airports. Efficiency of flight operations en-route will become more critical. Since weather conditions seriously affect air traffic operations (the cost to divert a flight, for example, is upwards of $150,000), the manner by which weather is observed, predicted, disseminated and used within air traffic decision processes and systems is of critical national importance. Thus, it is critical to invest in federal research and development efforts that will help mitigate these costs and increase safety.

FAA Research, Engineering, and Development (RE&D)
The FY13 request continues important work in current research areas, including aviation weather research. The proposed budget supports enhanced Next Generation Air Transportation System (NextGen) research and development efforts in the areas of air-ground integration, weather information for pilots, and environmental research for aircraft technologies as well as alternative fuels to improve aviation's environmental and energy performance. The following programs can be found within the RE&D section of the FY13 FAA budget request.

Weather Program. The goal of the Weather Program is to increase safety and capacity, and to support NextGen. A number of aviation weather research projects are underway, in collaboration with industry representatives, focusing on in-flight icing, turbulence, winter weather and deicing protocols, thunderstorms, ceiling, and visibility. One example of a system that translates a large amount of weather data into significant safety and delay improvements is the Aviation Digital Data Service (ADDS). This strong collaboration between the FAA and the National Weather Service provides the latest forecasting breakthroughs to the entire aviation community to help reduce significant safety hazards and major causes of system delays. Using ADDS, accurate forecasts of aviation weather can be translated into probable impacts to the system. This allows for improved decision making, resulting in improved safety and reduced delays.

I am very concerned that the budget request will not support the R&D needs of the Weather Program. The request for this program is down from the FY10, FY11, and FY12 funding levels and is operating at half the level of funding of ten years ago. Yet our skies have become more crowded, with more than 87,000 flights in each day according to the National Air Traffic Controllers Association, and the need for this research greater. **To address the challenges and to meet the research needs of NextGen, I urge you to support $18 million, at a minimum, for the Weather Program for FY13.**

Weather Technology in the Cockpit. Pilots currently have little weather information as they fly over remote stretches of ocean where some of the worst turbulence is encountered. At the very least, providing pilots with an approximate picture of developing storms could help guide them safely around areas of potentially severe turbulence.

In addition, the most vulnerable pilots, those engaged in General Aviation activities, are forced to make critical weather decisions in the cockpit without support of a ground-based dispatcher for assistance. Weather Technology in the Cockpit is launching a project to develop a mobile meteorological capability for use by this community.

Weather Technology in the Cockpit leverages research activities with other agencies, academia and the private sector by enabling the adoption of cockpit technologies that provide pilots with hazardous weather information and improve situational awareness. ***I am very disappointed that the President's FY 2013 request of $4.8 million for this small but life-saving program was reduced almost fifty percent from FY 2012 levels. I urge the Subcommittee to fund the Weather Technology in the Cockpit program at $10 million, at a minimum.***

FAA Facilities and Equipment
Within Facilities and Equipment, I would like to call your attention to the following extremely important programs:

NextGen Network Enabled Weather (NNEW). Delays in the National Airspace System (NAS) are primarily attributable to weather. According to the FAA, over the last five years more than 70 percent of delays of 15 minutes or more, on average, were caused by weather. Weather also affects safety. Between 1994 and 2003, weather was determined to be a contributing factor in over 20 percent of all accidents. Currently, most operational decision tools do not utilize weather information effectively or at all. Exploring, identifying, and employing better methods for data collection and communication will help facilitate the flow of operation-specific weather data and information to end users. The NNEW multiagency project is dedicated to using and developing technologies and standards for NextGen that will support effective dissemination of weather data. NNEW will develop the FAA's portion of the 4-Dimenstional Weather Data Cube. This will provide standardized information from disparate contributors and locations, to a variety of end-users such as air traffic managers and pilots.

In the FY13 request, the NNEW activity is listed under System-Wide Information Management (SWIM). Funding for the R&D work contributing to the 4-D Weather Data Cube will come from Common Support Services within SWIM, requested at $23.8 million. These services disseminate aviation weather information in a network enabled environment. From FY08 to FY12, UCAR helped the FAA frame and establish this effort under the name NextGen Net-Enabled Weather (NNEW). ***I strongly urge the Subcommittee to support the $23.8 million request for*** **Common Support Services within System-Wide Information Management (SWIM)** ***and recommend that Congress retain the NextGen Network Enabled Weather (NNEW) title.***

NextGen Reduce Weather Impact. The current weather observing network of the National Airspace System is inadequate to meet the needs of NextGen. The NextGen Reduce Weather Impact program will increase network capacity, reducing congestion and meeting projected demand in an environmentally sound manner. Working with appropriate scientific, modeling and user communities, current sensor information and dissemination shortfalls will be identified and evaluated. Technologies for optimizing and improving automated aircraft weather reporting will be investigated to meet NextGen requirements. The Reduce Weather Impact portfolio will leverage the NNEW transformational program that will interface with NOAA's 4-D Weather Data Cube, for universal common access to weather information. ***To continue the work of NextGen Reduce Weather Impact, I urge the Subcommittee to increase the FY13 funding for the program from the requested $16.6 million to $43.2 million.***

Federal Highway Administration

According to the National Highway Traffic Safety Administration, there are over six million vehicle crashes on average each year. Twenty-four percent of these crashes—over 1.5 million—are weather-related. Weather-related crashes are defined as those crashes that occur in adverse weather (i.e., rain, sleet, snow, and/or fog) or on slick pavement (i.e., wet pavement, snowy/slushy pavement, or icy pavement). On average, 7,130 people are killed and over 629,000 people are injured in weather-related crashes each year. The FHWA Road Weather Management Program seeks to better understand the impacts of weather on roadways, and promote strategies and tools to mitigate those impacts. UCAR and its partners are key contributors the FHWA's vision of "Anytime, Anywhere Road Weather Information" for road users and road operating agencies. Central to this commitment is the FHWA's Intelligent Transportation Systems program within its Research, Technology and Education Program.

Intelligent Transportation Systems (ITS) within the Department of Transportation's Research and Innovative Technology Administration (RITA)
The Connected Vehicle Technology (formerly IntelliDrive) program remains the centerpiece of the DOT ITS 2010-2014 Strategic Research Plan. This program creates partnerships between government, industry, academia and others to specify, develop and produce the necessary technology to continuously gather and broadcast information about a moving vehicle, including its surrounding weather conditions.

An example of leading edge applications and services supported by ITS is the Vehicle Data Translator, a prototype tool being developed at UCAR that will give drivers near-immediate information about unforeseen hazards. The system, which underwent field testing this past winter in Minnesota and Nevada, will inform drivers of what weather conditions they can expect to encounter in the next few seconds and minutes, giving them a critical opportunity to slow down or take other action. Once the system is operational, an onboard digital memory device will collect weather data such as temperature, and indirect indications of road conditions such as windshield wipers being switched on, or the activation of antilock brakes. The processed data will then be used to warn motorists about upcoming hazards—everything from icy roads to a nearby vehicle that is being driven erratically—and suggest alternate routes, if appropriate. The system will also alert emergency managers to hazardous driving conditions and help road crews clear snow more efficiently.

To meet its core research and technology transfer mission, and support projects like the Vehicle Data Translator, I urge the Subcommittee to support the requested amount of $110 million for ITS, which includes $46.1 million for IntelliDrive V-V and V-I Communications for Safety and $15.5 million for Dynamic Mobility Applications.

On behalf of UCAR, I want to thank the Subcommittee for its leadership in supporting research and development and technology transfer programs within the FHWA and FAA and for your commitment to ensuring safer, more efficient air and road travel. I urge you to support these relatively small, but critically important R&D programs within the FHWA and FAA FY 2013 budgets.

Statement of the Coalition of Northeastern Governors
to the United States House of Representatives Committee on Appropriations
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Regarding FY2013 Appropriations for Transportation and Community Development Programs

March 23, 2012

The Coalition of Northeastern Governors (CONEG) is pleased to share with the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies its views on FY2013 appropriations for surface transportation, rail, and community development programs. The CONEG governors deeply appreciate the Subcommittee's longstanding support of funding for the nation's highway, transit, transportation safety, and rail programs. Federal support is vital to maintain the nation's transportation system, enhance its capacity to meet diverse and enormous needs, and contribute to a balanced, integrated national transportation system that supports the nation's current and future economic growth. As the nation's population grows and the economy recovers, these needs confront all of us – federal, state and local governments and the private sector.

We recognize that the Subcommittee, in crafting the FY2013 appropriations measure, faces a very difficult set of choices in this environment of severe fiscal constraints. The current economic situation exacerbates the shortfall in the Highway Trust Fund (HTF), even as it has contributed to one of the highest demands for public transportation in more than 50 years. The national debate on the scope and scale of the surface transportation authorization and funding has advanced significantly, but has not yet resulted in a new authorization framework, including the potential for new approaches to fund, restructure and finance highway and transit programs. In spite of these challenges, we urge the Subcommittee to continue a strong federal/state partnership so vital for a national, integrated, multi-modal transportation system. This system underpins the competitiveness of the nation's economy; broadens employment opportunities; and contributes to the efficient, safe, environmentally sound, and energy efficient movement of people and goods.

Surface Transportation
As the surface transportation authorization moves to completion, the CONEG governors urge the Subcommittee to fund the highway obligation ceiling at the $42 billion level, adequately fund safety and innovative financing programs, and maintain at least the FY2012 levels for public transit programs. This level of federal investment is the minimum needed to slow the decline in infrastructure conditions and maintain the safety of the nation's highways, bridges, and transit systems.

Continued and substantial federal investment in these infrastructure improvements – in urban, suburban, exurban, and rural areas – is necessary to safely and efficiently move people and products and to support the substantial growth in freight movement projected in the coming decades. The federal government has invested significant resources in the nation's transportation systems, and it has a continuing responsibility to maintain and enhance the capacity of the nation's transportation infrastructure to keep America competitive in a global economy.

Specifically, the CONEG governors urge the Subcommittee to:
- Fund the highway obligation ceiling at the $42 billion level;
- Maintain public transit funding at no less than the FY2012 appropriated levels, with full funding for the current transit formula and capital investment and preserving the historic funding balance between these programs;

- Ensure that federal transit funds are released to states and designated recipients in a timely manner; and
- Expand the use of innovative financing and public-private partnerships to supplement direct federal funding, including federal loan guarantees and credit assistance, such as the Transportation Infrastructure Finance and Innovation Act program (TIFIA).

Rail

The governors deeply appreciate the Subcommittee's past support for intercity passenger rail, and we urge that it again provides funding in FY2013 that will allow efficient intercity passenger rail corridors to be developed as part of a national, multi-modal transportation system. In the Northeast, continued, adequate federal investment is critical to bring the current system to a state of good repair; help expand its capacity to meet the growing ridership; provide improved service to communities; attract state, local and private sector investments in the nation's intercity passenger rail system; and develop a coordinated, comprehensive vision and plans for future services. These investments are essential for the accessible, reliable, frequent and on-time service that attracts and retains ridership and grows revenues.

The Northeast has one of the oldest and most extensive multi-modal transportation systems in the world. This system faces major congestion and capacity constraints which, if not addressed, have the potential to curtail future commerce and mobility in a region that is densely populated and serves as an economic engine for the nation. To begin to address these capacity constraints, the northeast states have invested significantly in the passenger rail corridors of the region – the Northeast Corridor (NEC), the Empire Corridor, the Northern New England Corridor, and the Keystone Corridor. They have leveraged federal funds appropriated for intercity passenger rail projects eligible under the framework created by the Passenger Rail Investment and Improvement Act (PRIIA). The intense efforts of the states, Amtrak and freight railroads in recent years are now showing results in the nation's busiest rail corridor. However, continued significant investments in this corridor network are needed to meet the growing intercity passenger travel market. The joint planning and funding efforts over the past three years are part of an on-going coordinated effort to reduce travel times, increase speed, improve service reliability and on-time performance, eliminate choke points, improve stations, replace aging bridges and electrical systems, install track and ties, replace catenary wires, and purchase new locomotives. Among the current projects that are employing thousands of workers using American-made supplies are the following:

- **High speed rail improvements between New York City and Trenton, New Jersey** are boosting capacity, reliability, and speed on a 22-mile segment of track capable of supporting train speeds up to 160 miles-per-hour.
- **The Harold Interlocking improvement will** alleviate delays for trains coming in and out of Manhattan by providing new routes that allow Amtrak trains to bypass the busiest passenger rail junction in the nation.
- **Installation of high-speed third track near Wilmington, Delaware** will allow for increased speeds.
- **Track improvements in Kingston, Rhode Island** will add an additional 1.5 miles of third track and improve capacity.
- **Access improvements for passengers using Union Station in Washington, D.C.** will improve passenger travel.

Amtrak: The Amtrak FY2013 Budget Request contains specific funding levels provided for operations, capital and debt service. These funding levels will enable Amtrak to continue a balanced program of adequate, sustained capital investment in infrastructure and fleet modernization programs that are vital

for an efficient intercity passenger rail system that can meet the rising demand for reliable, safe, quality services.

The Amtrak capital request encompasses urgently needed investments in infrastructure, more cost-efficient equipment replacement, and safety and security improvements in the NEC and corridors across the nation. Timely action on a systematic plan to replace aging equipment used throughout the system can help modernize the current Amtrak fleet, offer the prospect of more efficient procurement by Amtrak and by states, and help stimulate the growth of the domestic rail manufacturing sector.

We also strongly urge the Subcommittee to provide Amtrak the requested $60 million for the Gateway and other integrated infrastructure and equipment projects that will allow improved intercity service on the NEC – the backbone of a passenger rail network that connects the entire Northeast and extends rail service to communities in the South, West, and Canada. These projects are initial steps required to address the backlog of deferred investments, and to make investments in near-term improvements in track, bridges, tunnels and equipment that will increase the capacity of the NEC to offer more reliable and frequent intercity service that can deliver more riders to their destination in less travel time. Improvements on the NEC can also help address the congested highway corridors and crowded northeast airports that are a major source of airport travel delays nationwide.

Intercity Passenger Rail Corridors: To advance the initial investments made by the federal government and the states, the governors urge the Subcommittee in FY2013 to fund the competitive Intercity Passenger Rail Corridor Capital Assistance Program, and to provide provisions that fund the planning activities for the development of passenger rail corridors, including multi-state corridors. The multi-state planning funds are the source of the monies that support the initial work being led by the Federal Railroad Administration (FRA) to develop an updated service development plan and environmental analysis that reflect the current and projected demand for passenger rail service on the NEC. A funding level of $22 million is needed in FY2013 for these analyses which are required for any future major improvements for high speed intercity passenger rail service on the NEC.

Since these corridors serve diverse travel markets, we urge that these grant funds be available to states to advance plans for reliable, travel-time competitive service, regardless of maximum speed requirements. In light of the stringent FRA requirements for intercity passenger rail grants, we also request the Subcommittee to waive the current statutory requirement that projects be part of an approved state rail plan, since this requirement might curtail thoughtful and well advanced efforts already underway by the states.

Northeast Corridor Infrastructure and Operations Advisory Commission: The governors thank the Subcommittee for providing funding for the Northeast Corridor Infrastructure and Operations Advisory Commission (Commission). Consistent with its responsibilities defined under PRIIA, the Commission is working actively to facilitate mutual cooperation and planning among the states, Amtrak, freight railroads, and the FRA for intercity, commuter and freight use of the Corridor – and to also maximize the economic growth and the energy and environmental benefits of the larger regional NEC Network.

The Commission has extensive responsibilities to set corridor-wide policy goals and recommendations that encompass passenger rail mobility, intermodal connections to highways and airports, energy consumption, air quality improvements, and local and regional economic development of the entire northeast region. It is also tasked to develop a standardized formula to determine and allocate the costs, revenues and contributions among NEC commuter railroads and Amtrak that use each other's facilities and services. The Commission's work will also guide the vision and service development plans that are a pre-requisite to fund projects that can improve the capacity of the NEC. To conduct the assessments

required by Congress in a timely manner, the Commission needs resources, data and expert analysis that exceed that which is currently available through the staff of the states, Amtrak and FRA. Continued funding in FY2013 will ensure the Commission's ability to secure all essential resources for conducting these assessments.

Other Programs: A number of other national rail and intermodal programs are important components of the evolving federal-state-private sector partnerships to enhance passenger and freight rail across the country.

The Railroad Rehabilitation and Improvement Financing Program (RRIF) can be an important tool for railroads (particularly regional and short-line railroads) and public agencies to access the financing needed for critical infrastructure and intermodal projects. We also encourage the Subcommittee to provide funding for the Rail Line Relocation program, the Next Generation Corridor Train Equipment Pool, and critical rail safety programs.

We support the continuation of the Transportation Investment Generating Economic Recovery, or TIGER Discretionary Grant program, at $500 million to encourage investment in multi-modal, multi-jurisdictional or other road, rail, transit and port projects that help achieve critical national objectives.

Adequate funding is needed for the Surface Transportation Board to carry out its expanded responsibilities for intercity passenger rail corridor service, including its specific responsibilities under PRIIA regarding equitable cost-sharing formulas among states, Amtrak and commuter railroads.

Community Development Block Grant
The CONEG governors urge the Subcommittee to provide funding for the Community Development Block Grant (CDBG) program at least at the FY2012 level of $2.95 billion. By enabling states to invest in improved local infrastructure, rehabilitated affordable housing, and local economic development and jobs, the CDBG program provides needed assistance to redevelop and improve neighborhoods and communities nationwide.

Conclusion
In conclusion, the CONEG governors urge the Subcommittee to:

- Fund the highway obligation ceiling at the $42 billion level and an expanded TIFIA program;
- Maintain federal public transit funding at no less than the FY2012 appropriated levels, with full funding for the transit formula and capital investment programs, and preserving the historic funding balance between these programs;
- Fund Amtrak at levels that will support sound operations and a balanced capital investment program, including the NEC capacity improvements;
- Maintain provisions to fund the Northeast Corridor Infrastructure and Operations Advisory Commission;
- Provide funding for the Intercity Passenger Rail Service Corridor Assistance Program for corridor planning and capital investment, including provisions for multi-state corridor planning;
- Provide funding for such national rail programs as the Next Generation Corridor Train Equipment Pool, the Rail Line Relocation program and the RRIF program;
- Provide $500 million for the TIGER program;
- Provide adequate funding for the Surface Transportation Board; and
- Maintain funding for the Community Development Block Grant at the $2.95 billion level.

The CONEG governors thank the entire Subcommittee for the opportunity to share these priorities and appreciate your consideration of these requests.

1707 L Street NW • Suite 250
Washington, DC 20036
Phone: 202-955-5543
Fax: 202-207-3349
www.t4america.org

The Honorable Tom Latham
Chairman
U.S. House Appropriations Committee
Subcommittee on Transportation,
Housing and Urban Development, and
Related Agencies
Washington, DC 20515

The Honorable John Olver
Ranking Member
U.S. House Appropriations Committee
Subcommittee on Transportation,
Housing and Urban Development, and
Related Agencies
Washington, DC 20515

March 23rd, 2012

Dear Chairman Latham and Ranking Member Olver:

As you begin work on the Fiscal Year 2013 Transportation-THUD Appropriations bill, Transportation for America urges continued job-creating investment in our nation's transportation infrastructure. America's surface transportation network is essential for moving goods and helping people get to work, school, healthcare and shops. But, this system is becoming increasingly dated and ineffective. Congestion, aging trains and roads, and over 69,000 structurally deficient bridges are imposing real costs on the American people, in terms of time, money, and quality of life. Poor road conditions alone caused U.S. motorists $67 billion and in 2011 the annual cost of congestion rose to $100 billion.

Transportation investments are proven job creators, providing work to the hard-hit construction industry and creating long-term value to the economy. Given the fiscal challenges facing government at every level, we need to focus our priorities on investing in programs that will create jobs and rebuild the foundation of a strong American economy. The following priorities are these types of investments.

The FY 2013 Transportation-HUD Appropriations bill should:

- Fund federal aid highway programs at current levels plus inflation. . Our nation's infrastructure is in a state of disrepair. Less than half our roads are in good condition and more than 69,000 bridges across the nation are structurally deficient. This funding is crucial to maintain the infrastructure investments that help form the backbone of our economy.
- Fund transit formula grants at current levels. Our nation's 7,700 public transportation systems serve millions of people each day in urban and rural communities. As gas prices have increased over the past several months, Americans in communities of all sizes are seeking more transportation options. This option is especially critical for lower income employees getting to work.
- Continue current levels of funding for the Transportation Investments Generating Economic Recovery (TIGER) program. Unlike many other transportation programs, TIGER requires that projects demonstrate positive cost-benefits analysis to ensure that limited federal funds are used effectively. It rewards innovative projects that advance the performance of our transportation system. And the program is in great demand—the last round of grants received a total of $14.3 B in requests, far exceeding the $511 M in TIGER III grants. These projects help strengthen the economy, create jobs, reduce gridlock, and provide safe, low-cost transportation choices to our citizens in both metropolitan and rural areas.
- Maintain current funding for Federal Transit Administration's (FTA) New Starts program, which provides federal matching funds for development and construction of new public transit lines. This

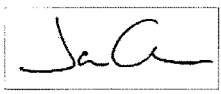
Transportation for America (T4 America) is the largest, most diverse coalition working on transportation reform today. Our nation's transportation network is based on a policy that has not been significantly updated since the 1950's. We believe it is time for a bold new vision — transportation that guarantees our freedom to move however we choose and leads to a stronger economy, greater energy security, cleaner environment and healthier America for all of us. We're calling for more responsible investment of our federal tax dollars to create a safer, cleaner, smarter transportation system that works for everyone.

construction puts people to work, provides low-cost transportation choices, improves our health and often leverages private investment along the corridors. There is high demand for more transit options—a recent analysis by Reconnecting America found more than 640 planned and proposed major transit projects across the country.

- Fund the Partnership for Sustainable Communities Initiative competitive grants for communities to realize their visions for building economically viable and sustainable regions. These grants reduce regulatory burdens at the local level and enable communities to make more strategic investments with limited funding. They help local leaders leverage private sector investment, reduce housing and transportation costs for families, and create jobs.
- Support increased Amtrak funding for capital projects, which provides important transportation links to small and large communities alike.
- Fund the Passenger Rail Investment and Improvement grants. Over the past three years, 39 states, Amtrak, and the District of Columbia submitted applications requesting more than $75 billion to build and improve high-speed and intercity passenger rail service in every region of the country. These requests are well in excess of the $10.1B in grants funding appropriated in FY 2009 and FY 2010 for high speed and intercity passenger rail grants. Investment in intercity passenger rail creates jobs, reduces congestion, will stimulate American manufacturing, and reduces our dependence on foreign oil.

Thank you for your leadership. Again, as you craft the FY 2013 Transportation-HUD Appropriations bill, we urge you to prioritize these high-demand, job-creating investments.

Sincerely,



James Corless
Director
Transportation for America

STATEMENT
OF THE
AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

SUBMITTED TO THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES

MARCH 29, 2012

This statement focuses on the Department of Housing and Urban Development (HUD).
On behalf of the nation's 37 Tribal Colleges and Universities (TCUs), which compose the American Indian Higher Education Consortium (AIHEC), thank you for the opportunity to express our views and recommendations regarding the Department of Housing and Urban Development Tribal Colleges and Universities' Program for Fiscal Year 2013 (FY 2013).

SUMMARY OF REQUESTS

Department of Housing and Urban Development (HUD): Beginning in Fiscal Year 2001, a TCU initiative had been administered by the HUD-Office of University Partnerships as part of the University Community Fund. This competitive grants program enabled TCUs to build, expand, renovate, and equip their facilities that are available to, and used by, their respective reservation communities. ***We strongly urge the Subcommittee to reject the recommendation included in the President's FY 2013 Budget Request and to support the goals of EO 13592 to strengthen TCUs by funding the competitive HUD-TCU Program, at the FY 2010 level of $5.435 million. Additionally, we request that language be included to permit that a small portion of the funds appropriated may be used to provide technical assistance to institutions eligible to participate in this competitive grants program.***

TCU SHOESTRING BUDGETS: "DOING SO MUCH WITH SO LITTLE"

Tribal Colleges and Universities are accredited by independent, regional accreditation agencies and like all U.S. institutions of higher education, must periodically undergo stringent performance reviews to retain their accreditation status. TCUs fulfill additional roles within their respective reservation communities functioning as community centers, libraries, tribal archives, career and business centers, economic development centers, public meeting places, and child and elder care centers. Each TCU is committed to improving the lives of its students through higher education and to moving American Indians toward self-sufficiency.

TCUs have advanced American Indian higher education significantly since we first began four decades ago, but many challenges remain. Tribal Colleges and Universities are perennially underfunded. In fact, TCUs are the most poorly funded institutions of higher education in the country.

The tribal governments that have chartered TCUs are not among the handful of wealthy gaming tribes located near major urban areas. Rather, they are some of the poorest governments in the nation. Tribal Colleges are home to some of the poorest counties in America.

The federal government, despite its trust responsibility and treaty obligations, has never fully funded the principal institutional operating budgets, authorized under the Tribally Controlled Colleges and Universities Assistance Act of 1978. The Tribal College Act authorizes basic institutional operations funding on a per Indian student basis; yet the funds are not appropriated in the same manner. In FY 2011, Congress

121 ORONOCO STREET – ALEXANDRIA, VA 22314 – 703-838-0400 – FACSIMILE: 703-838-0388

proposed level funding for TCU institutional operating grants and appropriated the communal pot of funds at the same level as FY 2010. However, due to a spike in enrollments at the TCUs of over 1660 Indian students in a single year, the TCUs are receiving funds at $549 LESS PER Indian student toward their institutional operating budgets. Fully funding TCUs' operating budgets would require $8,000 per Indian student. TCUs are currently operating at $5,235/Indian student. By contrast, Howard University located in the District of Columbia, the only other minority-serving institution to receive institutional operations funding from the federal government, is funded at approximately $19,000 per student. We are by no means suggesting that Howard University does not need this funding, only that the TCUs' operating budgets are clearly grossly underfunded.

While TCUs do seek funding from their respective state legislatures for the non-Indian state-resident students (sometimes referred to as "non-beneficiary" students) that account for 20 percent of their enrollments, successes have been at best inconsistent. TCUs are accredited by the same regional agencies that accredit mainstream institutions, yet they have to continually advocate for basic operating support for their non-Indian state students within their respective state legislatures. If these non-beneficiary students attended any other public institution in the state, the state would provide that institution with ongoing funding toward its operations.

TCUs effectively blend traditional teachings with conventional postsecondary curricula. They have developed innovative ways to address the needs of tribal populations and are overcoming long-standing barriers to success in higher education for American Indians. Since the first TCU was established on the Navajo Nation in 1968, these vital institutions have come to represent the most significant development in the history of American Indian higher education, providing access to, and promoting achievement among, students who might otherwise never have known postsecondary education success.

Tribal Colleges and Universities provide access to higher education for American Indians and others living in some of the nation's most rural and economically depressed areas. According to U.S. Census data[1], the annual per capita income of the U.S. population is $26,059. By contrast, the annual per capita income of American Indians is $15,671 or about 40 percent less. In addition to serving their student populations, TCUs offer a variety of much needed community outreach programs.

Inadequate funding has left many TCUs with no choice but to continue to operate under severely distressed conditions. The need for HUD-TCUP funding remains urgent for construction, renovation, improvement, and maintenance of key TCU facilities, such as basic and advanced science laboratories, computer labs, and increasingly important student housing, day care centers, and community services facilities. Although the situation has greatly improved at many TCUs in the past several years, some TCUs still operate -- at least partially -- in donated and temporary buildings. Few have dormitories, even fewer have student health centers and only one TCU has a science research laboratory. At Sitting Bull College in Fort Yates, ND competitively awarded HUD grant funds have been leveraged to expand the college's usable space from 12,000 square feet (sf) to 100,000 sf over 10 years. Additionally, HUD grant dollars have been used to address three leaking roofs that creating a mold problem in the area referred to at the college as the "Hall of Buckets." Currently, funds are being used to complete a renovation on its learning center, correcting major deficiencies, including recurring sewer and water issues, handicap accessibility problems, lack of effective safety/security measures (surveillance and alarm systems), and outdated washroom facilities.

[1] Source: U.S. Census Bureau, 2010 American Community Survey

As a result of more than 200 years of federal Indian policy -- including policies of termination, assimilation and relocation -- many reservation residents live in conditions of poverty comparable to that found in Third World nations. Through the efforts of TCUs, American Indian communities are availing themselves of resources needed to foster responsible, productive, and self-reliant citizens.

JUSTIFICATIONS

Department of Housing and Urban Development: Executive Order 13592 addressing American Indian Education and strengthening of Tribal Colleges and Universities holds federal agencies accountable to develop plans for integrating TCUs into their programs. TCUs work with tribes and communities to address all aspects of reservation life, including the continuum of education, housing, economic development, health promotion, law enforcement training and crime prevention. Likewise, federal agencies need to work with TCUs. To achieve results, Congress needs to hold the Administration accountable for strengthening the TCUs including their physical plants and that they are routinely included as full partners in all existing and potential federal higher education programs. The HUD-TCU competitive grants program, administered by the Office of University Partnerships, is an excellent place to start. This competitive grants program has enabled TCUs to expand their roles and efficacy in addressing development and revitalization needs within their respective communities. No academic or student support projects have been funded through this program; rather, funding was available only for community based outreach and service programs and community facilities at TCUs. Through this program, some TCUs have been able to build or enhance child care centers, including Head Start facilities, and social services offices; help revitalize tribal housing; establish and expand small business development; and enhance vitally-needed community library services. Unfortunately, not all of the TCUs were able to benefit from this small but very important program. The program staff at the Department has no budget to provide technical assistance with regard to this program. If a small portion of the appropriated funds were to be available for program staff to conduct workshops and site visits, more of the TCUs and their respective communities could benefit from this vital opportunity. ***We strongly urge the Subcommittee to support the HUD-TCU competitive grants program at $5,435,000, and to include language that will allow a small portion of these funds to be used to provide technical assistance to TCUs, to help ensure that much needed community services and programs are expanded and continued in the communities served by the nation's Tribal Colleges and Universities.***

PRESIDENT'S FY 2013 BUDGET

The President's FY 2013 Budget Request provides no funding for the University Community Fund, which housed the TCU program and other Minority-Serving Institutions programs. We respectfully request that the Subcommittee reject the Administration's recommendation and continue to recognize the abundant need for facilities construction and improvement funds for TCUs and appropriate funding for the Tribal Colleges and Universities Program, and the other MSI-HUD programs, namely: Historically Black Colleges and Universities; Hispanic Serving Institutions Assisting Communities; and Alaska Native and Native Hawaiian Serving Institutions Assisting Communities, to be allocated competitively within their individual programs.

CONCLUSION

We respectfully request that beginning in FY 2013, Congress illustrate its support for the goals of the new executive order aimed at strengthening TCUs by restoring the HUD-TCU competitive grants program and provide for technical assistance to help these vital institutions improve and expand their facilities to better serve their students and communities. Thank you for your continued support of the nation's TCUs and for your consideration of our Fiscal Year 2013 HUD appropriations requests.

Michael P. Melaniphy, President/CEO, on behalf of
THE AMERICAN PUBLIC TRANSPORTATION ASSOCIATION (APTA)
TESTIMONY SUBMITTED TO
THE HOUSE APPROPRIATIONS SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES
On Fiscal Year 2013 Appropriations for the U.S. Department of Transportation
March 30, 2012

Introduction

Mr. Chairman and members of the subcommittee, on behalf of the American Public Transportation Association (APTA), I thank you for this opportunity to submit written testimony on the Fiscal Year (FY) 2013 Transportation, Housing and Urban Development Appropriations bill as it relates to federal investment in public transportation and high-speed and intercity passenger rail.

APTA's highest priority continues to be the enactment of a well-funded, multi-modal surface transportation authorization bill. We have been pleased to see progress on bills in both Congressional chambers, and look forward to continuing to work towards finalizing legislation. We recognize the challenge that the absence of an authorization bill places on the Appropriations Committee, yet we must stress the tremendous needs that persist for public transportation agencies throughout the country, and remind Congress that investment in transportation infrastructure puts Americans to work and gets them to work. Failure to invest will force private sector businesses in the transit industry and other industries to lay off employees and to invest overseas, while increased federal investment addresses the need for much-needed state-of-good-repair capital improvements and the expansion needed to meet rising demand. For the nation's tens of millions of transit riders, any cuts will mean less service, fewer travel options, higher costs and longer commutes. Americans took 10.4 billion trips on public transportation in 2011, a 2.31 percent increase from 2010 and the second highest annual ridership total since 1957. Only ridership in 2008, when gas rose to more than $4 a gallon, surpassed last year's ridership, and, as you know, gas prices are continuing to rise.

About APTA

APTA is a nonprofit international association of 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.

Overview of FY 2013 Funding Requests

It has been more than two years since the original expiration of SAFETEA-LU, and we are excited to see authorizing legislation considered in both chambers of Congress. However, in the absence of a finalized piece of legislation, APTA continues to look towards existing law, appropriations, and current budget proposals for appropriations request guidance.

It is important that steady and growing investment continue despite economic or fiscal situations, as demand and long-term planning requirements for transportation investment continue as well. In the Obama Administration's FY 2013 Budget Proposal, along with their proposed six-year

surface transportation authorization proposal, the President requests $10.8 billion for public transportation programs in FY 2013 and would additionally include $50 billion for a one-time state of good repair investment program, spread across highway and transit programs. The President's proposal also requests $2.5 billion for high-speed and intercity passenger rail. APTA applauds the President's proposed public transportation budget request.

While we recognize the growing pressures that are impacting general fund budget authority allocations, APTA urges Congress to resist efforts to make further cuts to general fund components of the federal transit program, such as Capital Investment Grants and research, as these are important elements of federal surface transportation investment. In particular, many in the transit industry were particularly concerned about cuts in FY 2012 to the Transit Cooperative Research Program (TCRP), an important program that produces basic research that is used by transit agencies nationwide to improve efficiency, safety and technical capacity.

Finally, we encourage Congress to fund the Rail Safety Technology Grants program (Section 105) of the Rail Safety Improvement Act (RSIA) at a level significantly higher than the $50 million authorized annually through FY 2013, to assist with the implementation of congressionally mandated positive train control systems. The federal deadline for implementation of positive train control systems is rapidly approaching, and to date, Congress has not provided the necessary funding to support implementation of this important safety program.

The Need for Federal Transit Investment

In previous testimony to this subcommittee, APTA presented the case for increasing federal investment in public transportation. The U.S. Department of Transportation estimates that a one-time investment of $78 billion is needed to bring currently operating transit infrastructure up to a state of good repair, and this does not include annual costs to maintain, expand or operate the existing system. Research on transit needs shows that capital investment from all sources - federal, state, and local - should be doubled if we are to prepare for future ridership demands. The Administration's $50 billion proposal would go a long way towards accomplishing our state of good repair objectives.

APTA's overall funding recommendation continues to be informed by our recommendations for surface transportation authorization and the estimated federal funding growth required to meet at least 50 percent of the $60 billion in annual transit capital needs. These levels are intended to support a projected doubling of transit ridership over the next 20 years. The American Association of State Highway and Transportation Officials (AASHTO) agrees with APTA's estimate, stating in its "Bottom Line Report for Transportation – 2009" that "if transit ridership grows yearly by 3.5 percent, investment would have to increase to $59 billion annually." In 2010, the federal contribution to public transportation funding, from all sources, amounted to 19.3 percent, while state and local governments contributed 40.2 percent of all resources. Transit agencies directly generated the remaining 40.5 percent through fare box collections and other means. The federal share of total spending is a seemingly small part of the combined capital and operating expenses for the transit industry, but without it, services would be slashed and jobs would be lost. Comparatively, the federal share for capital-only investment is in excess of 41 percent, and this contribution is vital to the advancement of state-of-good repair improvements and much needed capacity expansion.

It is important to stress that the demand for public transportation and the need for federal leadership will not diminish in the months and years ahead. As gasoline prices continue to increase, Americans are turning to public transportation in record numbers, just as they did in 2008 when gas reached an average price of $4.11 per gallon. Public transportation is a vital component of the nation's total transportation infrastructure picture, and with ridership projected to grow, dependable public transportation systems will be vital to the transportation needs of millions of Americans.

The recent volatility of the price at the pump is another wakeup call for our nation to address the increasing demand for and importance of public transportation services. We must make significant, long-term investments in public transportation or we will leave Americans with limited transportation options, and in many cases, stranded without travel options. While Congress continues to consider how to proceed on a well-funded, multi-modal surface transportation bill, it remains critically important that annual appropriations bills support both current and growing needs.

Federal Transit Administration Programs

Capital Investment Grants (New Starts) – APTA was pleased to see the House continue to support the New Starts program in H.R.7. The New Starts program is the primary source of federal investment in the construction or expansion of heavy rail, light rail, commuter rail, bus rapid transit and ferryboat projects. As you know, unlike most other Federal Transit Administration (FTA) programs, the New Starts program is funded from the General Fund, not the Mass Transit Account of the Federal Highway Trust Fund. Funding for New Starts was previously included in funding guarantees for highway and transit programs, and the success of these major, multi-year capital projects requires predictable support by Congress and the FTA. Congress established Full Funding Grant Agreements (FFGAs) to provide this predictability. A continued commitment to federal investment will also influence the willingness of private financial markets to finance public transportation projects and it will help ensure that the bond ratings will remain high and interest rates will remain low.

We urge the Congress to recognize the importance of long-term, predictable funding for all highway and transit programs, including New Starts. APTA believes that the New Starts program should grow at the same rate as the rest of the transit program, as it is essential to enhancing our nation's mobility, accessibility and economic prosperity, while promoting energy conservation and environmental quality.

Formula and Bus and Bus Facilities - APTA urges Congress to continue funding for existing formula programs, including urban and rural formula, small transit intensive cities (STIC), fixed guideway modernization, and others at a rate consistent with overall FTA funding growth. These formula programs address core needs of our public transportation systems, and deserve the continued support of Congress. APTA has recommended, as part of its surface transportation authorization recommendations, that Congress equitably balance the various needs of the nation's diverse bus systems. In our authorization recommendations, APTA has called for modifying the current Bus and Bus Facilities program to create two separate categories of funding, with 50 percent distributed under bus formula factors, and the remaining 50 percent available under a discretionary program distributed either through Congressional direction or a competitive grants process. Our recommendations also call for a total bus and bus facilities

program that is funded at a level equal to 50 percent of the amount provided for the New Starts program and 50 percent of the level for fixed guideway modernization.

H.R. 7, the House's authorization bill, restricts funding for bus and bus facilities (which will be distributed by formula) to systems that are bus-only operations, thereby prohibiting funding under bus and bus facilities formulas from going to agencies that operate light, commuter or heavy rail. APTA does not support this approach and looks forward to working with Congress to ensure that all transit agencies have access to adequate funding to meet the bus and bus facilities needs of their communities. We urge the House, in the absence of finalized authorization language, to continue to fully fund bus and bus facilities under the current structure.

Transit Research/Transit Cooperative Research Program (TCRP) – APTA strongly urges the committee to take a renewed look at the TCRP program and restore funding to previous levels. Funding for the program was cut by 35 percent in FY 2012 and these cuts are having a significant impact in the production of high-quality, peer-reviewed research that assists transit agencies, their employees and even their governing boards to become more efficient and effective at delivering safe, reliable and dependable transit services. The TCRP is an applied research program that provides solutions to practical problems faced by transit operators. Over the TCRP's 20 years of existence, it has produced more than 500 publications/products on a wide variety of issues of importance to the transit community. Research has produced a variety of transit vehicle and infrastructure standards and specifications, as well as a variety of handbooks addressing many relevant subject areas of interest to the transit community.

Federal Railroad Administration Programs

Positive Train Control – A high priority for APTA within the programs of the Federal Railroad Administration (FRA) is the adequate funding for implementation of Positive Train Control (PTC) through the Railroad Safety Technology Grants Program, Section 105 of the Rail Safety Improvement Act (RSIA) of 2008. APTA is very disappointed that no funding was provided for PTC in Fiscal Year 2012. The RSIA requires that all passenger rail operators, as well as certain freight railroads, implement positive train control PTC systems by December 31, 2015. The cost of implementing PTC on public commuter railroads alone is estimated to exceed well over $2 billion, not including costs associated with acquiring the necessary radio spectrum or the subsequent software and operating expenses. APTA is urging Congress to significantly increase the authorized levels for implementation of mandated PTC systems and to appropriate funding for prior-year unfunded authorizations.

Our nation's commuter rail systems are committed to complying with the PTC mandate and implementing critical safety upgrades. However, both the costs associated with implementing PTC, as well as the challenges associated with a technology that is still under development, are quite substantial.

Recognizing the difficulties related to implementing PTC, the House and Senate have both included authority to extend the implementation deadline in their respective surface transportation authorization bills. The House bill, as reported out of committee, provides a full five-year extension to December 31, 2020, while the Senate bill allows an extension in yearly increments of up to three years, based on criteria related to issues such as availability of funding, radio spectrum, and interoperability. If enacted, the proposed extensions will assist publicly funded commuter railroads in meeting the mandate. However, substantial federal funding is also

necessary. Many commuter rail operators are being forced to delay previously planned, critical system safety state of good repair projects in order to install PTC by 2015. When the original legislation was passed in 2008, achieving the goal of PTC implementation within federally mandated timeframes posed significant challenges for publicly funded commuter railroads. Nonetheless, as a group, those railroads have worked in good faith to comply with the Act's requirements. Additional funding provided by Congress for the Railroad Safety Technology grants is fundamental to the industry's ability to implement PTC.

High-Speed and Intercity Passenger Rail Investment – Ridership in the overall passenger rail market in the United States has been steadily growing, with commuter rail being one of the most frequently used methods of public transportation for those traveling from outlying suburban areas to commercial centers of metropolitan areas, often to and from places of employment, education, commerce and medical care. The most recently published APTA public transportation ridership report, which provides data on transit passenger ridership for U.S. transit agencies, shows a continued strong demand for public transportation despite the economic downturn, with nearly 10.4 billion trips taken on public transportation nationally in 2011. The demand for commuter rail service has also remained strong, with ridership on this mode increasing by 2.5 percent in 2011. A new rail line extension that opened in Austin, Texas in December 2010, saw an increase of 169 percent due to additional and weekend service and six commuter rail systems saw double digit increases in 2011. Similarly, despite the nation's slow economy, Amtrak continued to experience record ridership in the last fiscal year, reporting a ridership increase of 5 percent, for an overall ridership of more than 30.2 million passengers. As the current political unrest in many oil producing nations continues, more and more commuters are turning to public transportation to escape rising gas prices, and many transit operators are reporting double digit ridership increases this year.

In addition to commuter rail, it is critical that intercity passenger rail become a more useful transportation option for travelers looking for alternatives to high gas prices and congested road and air travel. Thirty-two states plus the District of Columbia are forging ahead in planning and implementing passenger rail improvements. It is more important than ever for the U.S. to invest in its infrastructure as the efficient movement of people and goods is essential for sustained economic growth and recovery. The challenge America faces is that its roadways and airways are highly congested and overburdened. Compounded with both the scarcity of oil and the environmental impact of fossil fuel reliance, it is vital for the future of the nation to develop a well-balanced, multi-modal transportation system.

Conclusion

We thank the subcommittee for allowing us to share APTA's views on FY 2013 public transportation and high-speed and intercity rail appropriations issues. APTA looks forward to working with the committee to grow the public transportation program. We urge the subcommittee to invest in making commuter, intercity and high-speed rail safer by fully appropriating the funds authorized in the RSIA and ask Congress to continue investing in a high-speed rail system. This is 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.

Statement of

Ross B. Capon

President and Chief Executive Officer

National Association of Railroad Passengers

Submitted to the

Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies
The Honorable Tom Latham, Chairman

Committee on Appropriations, U.S. House of Representatives

* * *

Fiscal 2013 Department of Transportation

* * *

March 29, 2012

* * *

Thank you for the opportunity to submit this statement. This request is for Amtrak and for the Federal Railroad Administration's High Speed and Intercity Passenger Rail program. The total request is for *at least* $2.54 billion for these programs.

In recognition of the American people's strong desire and need for passenger trains as a viable travel choice all across the country, the National Association of Railroad Passengers urges your support for the highest possible fiscal 2013 funding both for Amtrak and for the High Speed and Intercity Passenger Rail (HSIPR) program of competitive grants to states and Amtrak to for high and higher speed rail passenger train development.

Our Major Goals: Our board has approved three general goals:

- Improvement and expansion of today's conventional train network
- Support the construction and start-up within five years of at least one high-speed rail line
- Promote seamless intermodal connections use rail to tie modes together

Funding: We support Amtrak's request for $2.167 billion. The *total* for intercity passenger trains should be *at least* the $2.54 billion in the President's budget. It is

noteworthy that Amtrak's request for operations is $450 million, which is lower than the administration's request. To this we would add funds needed to restore New Orleans-Florida service (see *Gulf Coast Service* next page) which Amtrak's July 2009 report stated as $4.8 million for operations and $32.7 million for "capital/mobilization costs." We believe the latter figure is overstated.

Capital Grants for States: We strongly urge restoration of funding for the federal program that provides capital grants to states for intercity passenger rail investment, also known as "High Speed and Intercity Passenger Rail Program" (HSIPR). It is essential to have a federal program that supplements state investment in worthy intercity passenger train projects. It is unacceptable for the federal government to resume its practice of telling states "we have highway and aviation money for you but you are on your own when it comes to passenger trains."

Most of the projects which have won grants to date will generate tangible improvements in service quality and availability in the short term. The Federal Railroad Administration had to reject some other, good applications due to the shortage of funds. A few of the improvements include:

- 110 mph operation begun this month on Amtrak's portion of the Chicago-Detroit line,
- 110 mph operation on part of the Chicago-St. Louis line starting in 2014,
- Restoration of double-track to all of Greensboro-Charlotte (NS mainline)
- Shortening New Haven, CT—St. Albans, VT schedule by up to 127 minutes

Adding track capacity enhances freight operations because the tracks are there "24/7" and the passenger trains are not. Thus the HSIPR program also strengthens freight rail.

Desperate Need for Rolling Stock: The funding outlined is a minimum. It does not address the system expansion that we envision. It does not adequately address the **desperate need for new rolling stock – both to expand capacity and to deal with the aging of Amtrak's fleet.** It is good that Amtrak already has ordered cars from CAF-USA which will replace baggage and dining cars (vintage 1948-1956) as well as increase capacity on Eastern long-distance trains.

However, we must begin to address the aging of equipment that Amtrak purchased in its early years – including the Superliners that have been the workhorse of the long-distance fleet for over three decades – as well as provide for expansion of capacity on Superliner trains. The major fleets which Amtrak acquired after it began operations:

- 412 Amfleet I cars for short-distance service introduced 1974-77
- 122 Amfleet II cars in long-distance service introduced 1980-81
- 249 Superliner I cars in long-distance service introduced 1979-81
- 184 Superliner II cars in long-distance service introduced 1994-96

Service Expansion/Retention Priorities:

Restoration of New Orleans-Florida service which Amtrak unilaterally discontinued after Hurricane Katrina in 2005 even though CSX restored the railroad to "better than new" within six months. This route has never been formally discontinued and Amtrak's continuing failure to restore it has been perhaps our top point of disagreement with the railroad ever since. There has been a resurgence of interest in this vital link in the nationwide network, reflected in a well-attended February 27 news conference in the former Amtrak station in Tallahassee. Speakers included County Commissioner Akin Akinyemi, City Commissioner Nancy Miller, Tallahassee Mayor John Marks, Madison (FL) Mayor Jim Catron and Tallahassee Women's Club President Donna Peacock, and NARP Chairman Bob Stewart. Representatives of Rep. Steve Southerland (R-FL) and Sen. Bill Nelson (D-FL) were on hand.

Restoration of daily service on the *Cardinal* which currently runs three days a week between New York, Washington, Charlottesville, Charleston WV, Cincinnati, Chicago and intermediate points.

We strongly support efforts to keep Amtrak's Chicago-Los Angeles *Southwest Chief* train on its current route across Kansas and northern New Mexico.

Alaska Railroad bonds: We are concerned at a March 20 report in the *Anchorage Daily News* that the Senate-passed transportation bill "would cut $30 million from the Alaska Railroad." The railroad's union foresees "a dramatic reduction in passenger services." The railroad's CEO, Chris Aadnesen said the Senate bill "would be a big blow to us." Alaska Railroad passenger trains help keep hundreds of buses full of tourists off the Highways.

People Want—and are Riding—Trains: Amtrak has set eight ridership records in the last nine years. This comes in spite of aggressive fare policies. For example, in Fiscal 2011 overall ridership was up 5.1% while ticket revenues rose 8.5% compared with Fiscal 2010. During the first five months of Fiscal 2012 (October-February), ridership was up 3.2% and ticket revenues rose 4.9%, compared with the same months in Fiscal 2011.

This strong ridership also comes in spite of decades of underinvestment in rail relative to highways and aviation, and the resultant low levels of service in most of the country: the majority of Amtrak stations are served by no more than one daily train in each direction. Twenty of Amtrak's 27 short distance routes outside of the Northeast Corridor, and five of the 15 long-distance trains, set ridership records in fiscal 2011, while ticket revenues reached a record $1.9 billion.

High gasoline prices also are driving more Americans to the rails. If public policy encourages more people to travel by energy-efficient trains, this will accomplish the twin

objectives of helping the economy weather the depressive effects of higher fuel prices and enabling Americans to minimize the negative impact of these prices on their lifestyle and their ability to travel. As in the transit industry which is experiencing ridership records, a substantial share of the people who "discover" the train due to the high cost of driving wind up staying with the train.

Energy Efficiency: Trains' lower energy intensity also means lower per-passenger emissions of heat-trapping gases. *Transportation Energy Data Book*, published annually for the U.S. Department of Energy, shows BTUs per passenger-mile by mode. [A passenger-mile is one passenger traveling one mile.] The latest report—2009 data released in May 2011—indicates that Amtrak is 31.2% more energy efficient than automobiles, 33.5% than personal trucks and 13.8% than commercial aviation.

California High Speed Rail: We continue to support the California high-speed rail project, which California High-Speed Rail Authority (CAHSRA) Chairman Dan Richard recently estimated would not cost as much as the $98 billion previously reported. We are heartened by the High-Speed Rail Authority's agreement to assist transit agencies in the Los Angeles and San Francisco metro areas to make nearer-term upgrades to their systems in preparation for the full build-out of high-speed rail, and by the attention which Governor Brown devoted to the high-speed project in his state of the state message this year.

Gateway: Within Amtrak's request, we strongly back $35 million for the Gateway project, which will add capacity and enhance reliability over the country's most heavily-traveled railroad segment. Every year that goes by before Portal Bridge (over the Hackensack River) can be replaced, and Hudson River tunnel capacity can be increased, brings us closer to a potential mobility crisis that would touch the nerve center of the national economy.

Thank you for your consideration.

National Association of Railroad Passengers; 505 Capitol Court, NE, Suite 300;
Washington, DC 20002-7706—Phone 202-408-8362, FAX -8287—
Web: http://www.narprail.org; E-mails: narp@narprail.org; rcapon@narprail.org

NAHMA™
NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

400 North Columbus Street
Suite 203
Alexandria, VA 22314
(703) 683-8630
(703) 683-8634 FAX
www.nahma.org

Written Testimony of Kristina Cook, CAE
House Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
"Budget Hearing - Department of Housing and Urban Development - Secretary"
March 21, 2012

Thank you, Chairman Latham and Ranking Member Olver, for permitting me to submit this statement on behalf of the National Affordable Housing Management Association (NAHMA). NAHMA is a trade association which represents multifamily property managers and owners whose mission is to provide quality affordable rental housing. NAHMA is also the voice in Washington for 20 regional affordable housing management associations nationwide.

NAHMA strongly supports funding the Department of Housing and Urban Development's (HUD) affordable housing programs at the highest possible level in fiscal year (FY) 2013. Not only do these programs help stabilize the lives of millions of families by providing them access to quality affordable housing, they provide thousands of jobs to Americans and help stimulate local economies. We strongly urge Congress to approve full-funding for all HUD rental assistance contracts and adequate funding for new construction and preservation programs in FY 2013.

My testimony will focus on the sections of the FY 2013 HUD Budget that are most important to NAHMA's property managers and owners.

Project-Based Section 8

In the project-based Section 8 program, HUD contracts with private apartment owners to pay the difference between the rent for the unit and 30 percent of a qualified tenant's income. Now, HUD is proposing to cut funding for these contracts.

NAHMA strongly opposes the cuts to the project-based Section 8 program requested by HUD's fiscal year (FY) 2013 budget. The Department requested $8.7 billion for the project-based Section 8 account in FY 2013. Of that total, $8.44 billion is for contract renewals. However, this request is $611 million below what the FY 2012 appropriations provided for contract renewals. It also falls at least $1.1 billion short of the appropriations

necessary to fully fund the 12-month contract terms at the time of renewal. The shortfall increases to $1.5 billion if HUD does not achieve the $400 million in its assumed program savings.

Under the FY 2013 budget request, HUD would short-fund two-thirds of the project-based Section 8 rental assistance contracts—particularly those that renew in January through September 2013—by paying only for the months of the contract that run through September. Funding for the remaining months of the short-funded contracts would be pushed into FY 2014, which would put HUD even further behind in its ability to fund the 12-month contract terms in future years. This "budget gimmick" does not save the Federal government any money. In fact, it will waste Administrative staff time because the Department would need to process funding multiple times for the same property over the course of the year.

Prior to FY 2010, the Department used the same "incremental contract funding" gimmick, which resulted in partial or delayed Section 8 housing assistance payments (HAP) to owners. When properties received partial or delayed HAPs in the past, owners and management agents (O/A) deferred payments on property operations—including mortgages, maintenance, staff salaries, and utilities. O/As had to pay numerous late fees to mortgage lenders, utility companies and service providers as a result of late payments. Some properties had to lay off staff and delay much needed rehabilitation and preservation projects. Delayed and partial HAPs would once again jeopardize the efficient management, financial solvency, and physical health of project-based Section 8 properties.

Furthermore, delayed and partial HAPs eroded investor, lender, and owner confidence in the project-based Section 8 program. During the previous funding shortfalls prior to 2009, lenders and investors were hesitant to make long-term loans for mortgage refinancing or acquisition and rehabilitation of project-based Section 8 properties. Property owners also cited the delayed and partial HAPs as a reason they would consider opting-out of the program. It was not until 2009, when funding was stabilized through a $2 billion appropriation from the American Reinvestment and Recovery Act and HUD's FY 2010 appropriations bill provided full funding for the full 12-month contract terms at the time of renewal, that delayed and partial HAPs to properties ended.

HUD's proposal to deliberately underfund the contracts has jeopardized investor and owner confidence that was only recently restored in the program. Returning to stop-and-go funding policies would also harm the benefits that project-based Section 8 properties offer to local communities and economies. Nationwide, the project-based Section 8 program provides housing to 1.3 million low-income households. More than half of those households are elderly or disabled. The program supports 100,000 jobs both directly and indirectly. Project-based Section 8 properties also generate $460 million in tax receipts to local and state governments. If the failed "incremental" funding policies proposed by the FY

2013 budget are enacted, O/As will find it more difficult to employ the personnel and service providers needed to support the properties, endangering the very jobs and economic benefits Congress wants to preserve.

In addition, returning to incremental funding could not come at a worse time. Before 2009, HUD directed housing providers to use residual receipts and reserves to cover operating cost shortfalls resulting from late HAPs. As a result of HUD policies, these resources will not be available if late HAPs result from insufficient funding, incremental payments, or HUD's lack of capacity to process contract funding for the same properties multiple times. Owners have had to make substantial draws from the properties' reserve for replacement accounts as a result of various HUD policy directives. Likewise, the Department announced plans to use properties' residual receipts to offset HAP payments to owners.

HUD's proposal is a reversal of the Obama Administration's commitment to requesting full funding for 12-month housing assistance payment (HAP) contracts at the time of renewal. It is also a return to the Department's failed pre-2009 policy of offering owners incremental, short-funded HAP contracts. The affordable housing industry and the lending community are once again questioning whether the federal government is truly committed to the project-based Section 8 program--and whether it is worth the risk of participating in the program.

Therefore, NAHMA strongly opposes HUD's proposals to cut project-based Section 8 funding and to "short-fund" the contracts in FY 2013. We urge the Subcommittee to provide the necessary appropriations (about $9.94 billion assuming HUD's budget proposals result in less than $400 million in savings) to fully fund the 12-month HAP contracts at the time of renewal in FY 2013.

Other Rental Assistance Programs

In addition to the project-based Section 8 program, other federal rental assistance programs administered by HUD that play critical roles in meeting the housing needs of low-income families include the Section 8 Housing Choice Voucher (HCV) program, the Section 202 elderly housing program and the Section 811 housing program for the disabled.

In the HCV program (tenant-based Section 8), private apartment owners sign a HAP contract with the public housing authority to provide assistance for a family under HUD's Housing Choice Voucher program. The PHA uses federal funds to pay the owner the difference between 30 percent of the tenant's income and the rent for the unit. The HCV program provides assistance to almost 2.2 million low-income households, many of which are elderly, disabled, homeless, veterans, and at-risk youth. According to HUD, having access to safe, quality

affordable housing enhances health, safety, employment, and education outcomes for America's most vulnerable populations.

NAHMA also strongly supports some provisions from the Affordable Housing and Self-Sufficiency Act (AHA) that the Administration requested in HUD's general provisions. These provisions would create administrative efficiencies, improve the effectiveness, and reduce the costs of the HCV program by changing the definition of extremely low income for admission targeting purposes and streamlining inspections for units assisted by vouchers. These requests are positive steps; however, NAHMA would prefer that the Administration and Congress focus on passing AHA, which is currently being considered by the House Financial Services Committee. We believe that AHA—as passed by the House Financial Services Insurance, Housing, and Community Opportunity Subcommittee—makes a number of positive changes to the HCV program beyond the proposals included in the FY 2013 budget. AHA would help control costs in the HCV program, while helping to ensure that eligible families do not lose their assistance.

Under project rental assistance contracts (PRACs), HUD pays the difference between the rent and 30 percent of a tenant's income to owners of Section 202 apartments for the elderly or Section 811 apartments for the disabled. These important programs target assistance to fast-growing, extremely vulnerable populations, who often live on fixed incomes. Many of the properties that receive Section 202 and 811 PRACs provide specialized services to their residents that are designed to help the elderly "age in place" and to help the disabled live independently.

Therefore, we strongly urge the Subcommittee to continue providing the necessary appropriations to ensure full-funding and timely payment of these rental assistance contracts in FY 2013. NAHMA also encourages the Subcommittee to include the HCV inspection reforms and measures to expand assistance to the working poor from the FY 2013 HUD budget request in its appropriations legislation if AHA does not pass Congress this year.

New Construction and Rehabilitation Programs

HUD also administers some of the few remaining Federal grant and loan programs that help construct new apartments and preserve existing affordable housing units for low-income households.

HUD provides oversight for the HOME Investment Partnerships (HOME), Community Development Block Grants (CDBG), Section 202 and 811 capital advance programs. HOME is the largest federal block grant to state and local governments designed exclusively to produce affordable housing for low-income families. CDBG offers block grants to local communities for community development purposes, including the

development of affordable housing. Both HOME and CDBG supply critical gap financing that make rental housing funded with Low-Income Housing Tax Credits (LIHTC) or other Federal, state, or local housing projects feasible.

Section 202 and 811 capital advances provide grants to construct affordable housing for targeted populations—the elderly and disabled—who require special residential designs and services in order to live independently. However, HUD's FY 2013 budget proposes eliminating Section 811 and 202 capital advances and replacing them with new initiatives. Under the Section 202 "operational assistance" proposal, state housing agencies—in partnership with state health care agencies—would act as HUD's delegated processing agent for awarding and administering 202 funds. A Section 811 demonstration program, also administered by state housing agencies, is already underway to provide rental assistance to new or existing affordable housing developments. While NAHMA is interested in working with HUD and Congress to find new, more effective ways of using government funding to expand the availability of housing for elderly and disabled populations, we are unsure of how these proposals will work in practice. The legislative language used to authorize the Section 202 "operation assistance" account is vague, and HUD has not provided many details on how the new grant system would function. Furthermore, the Section 811 demonstration program has just begun and the results have not yet been evaluated. Therefore, NAHMA would urge the Subcommittee to continue funding Section 202 and 811 capital advances, even if alternative forms of assistance are explored.

HUD's new construction and rehabilitation programs not only increase and preserve the number of affordable housing units available for low-income households, they create jobs and generate substantial economic activity. These programs offer both direct and indirect jobs to local communities, as well as increase economic activity. For example, the CDBG program has directly created or retained more than 334,000 permanent jobs and sustained an additional 861,000 jobs over the last 10 years. Over the last four years, CDBG also helped over 174,000 businesses expand economic opportunities for America's most vulnerable citizens. In addition, HUD estimates that providing $1 billion for the HOME program in FY 2013 will create an additional 17,870 jobs.

As a result, NAHMA strongly urges the Subcommittee to appropriate sufficient funding for HUD's new construction and rehabilitation programs in FY 2013.

Limited English Proficiency

For the first time, HUD has included a request to fund the limited English proficiency (LEP) line-item in the Fair Housing account in its FY 2013 budget. The line-item funding allows HUD to provide translations of vital documents and oral interpretation services so that LEP persons have meaningful access to Federal programs.

This funding helps relieve the administrative burdens and costs of LEP obligations on HUD assisted properties. Therefore, NAHMA strongly supports continued funding for the LEP translations and technical assistance.

However, we believe LEP authorization language is still necessary to provide guidance on the appropriate use of the line-item funding. Currently, the LEP authorization language is attached to the AHA bill, discussed above. Nevertheless, NAHMA strongly encourages Congress to pass comprehensive LEP authorization language on the first available legislative vehicle that will:

- Create a task force of industry and civil rights stakeholders to identify vital documents;
- Require HUD to translate the vital documents; and
- Create a HUD-administered 1-800 hotline to assist with oral interpretation needs.

Conclusion

NAHMA urges the Subcommittee to support a strong budget for affordable housing in FY 2013. We believe a strong FY 2013 budget requires full-funding for all project-based Section 8 contract renewals, tenant-based Section 8 HCVs, and Section 202 and 811 PRACs. NAHMA also believes that a strong budget will contain sufficient funding for HUD's new construction and rehabilitation programs—HOME, CDBG, and Section 202 and 811 capital advances—and continue funding LEP technical assistance.

NAHMA is still very concerned that the government spending sequestration required by the Budget Control Act, if implemented, could hurt those assisted by HUD's affordable multifamily housing programs. Decreasing funding for these critical programs would reduce the level of assistance and the number of affordable housing units available for low-income families. As a result, some of America's most vulnerable households—including the elderly, disabled, veterans, formerly homeless, and at-risk youth— would lose their assistance and could no longer afford the residence they currently call home. This is extremely concerning, especially in light of HUD' Office of Policy Development and Research findings on the "Worst Case Housing Needs 2009: Report to Congress," released in 2011. The report found that during 2007 to 2009 the number of renters experiencing worst-case needs jumped by more than 20 percent, from 5.91 to 7.10 million. The term "worst-case housing need" is defined as very low-income renters with incomes below 50 percent of AMI who do not receive government housing assistance, and who either paid more than one-half of their income for rent or lived in severely inadequate conditions. Overall, the number of renters experiencing worst-case housing needs has jumped by 42 percent in the last decade. Construction and rehabilitation efforts have not kept pace with this growing need.

Furthermore, cutting appropriations for affordable housing programs would also take away jobs from the local communities that need them most, especially in rural areas. State and local governments will see reductions in tax revenue, which will further strain their budgets and negatively affect local economies.

Thank you again for providing NAHMA the opportunity to comment on HUD's FY 2013 budget request.

PREPARED STATEMENT OF CHERYL A. CAUSLEY,
CHAIRWOMAN OF THE NATIONAL AMERICAN INDIAN HOUSING COUNCIL

SUBMITTED TO THE UNITED STATES HOUSE SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES ON APPROPRIATIONS
ON THE FISCAL YEAR 2013 PRESIDENT'S BUDGET REQUEST

March 30, 2012

Introduction

Dear Chairman Latham, Ranking Member Olver, and members of the Subcommittee. I am submitting this statement regarding the President's Budget Request (PBR) for fiscal year (FY) 2013 on behalf of the National American Indian Housing Council (NAIHC). My name is Cheryl A. Causley and I am the Chairwoman of the NAIHC, the only national, tribal non-profit organization dedicated to advancing housing, physical infrastructure, and economic and community development in tribal communities throughout the United States. I am also an enrolled member of the Bay Mills Indian Community in Brimley, Michigan, and the Executive Director of the Bay Mills Indian Housing Authority. I want to thank the Subcommittee for the opportunity to submit written testimony for the Committee's consideration as it reviews the PBR for FY 2013.

Background on the National American Indian Housing Council (NAIHC)

The NAIHC was founded in 1974 and has, for 38 years, served its members by providing invaluable training and technical assistance (T/TA) to all tribes and tribal housing entities; providing information to Congress regarding the issues and challenges that tribes face in terms of housing, infrastructure, and community and economic development; and working with key Federal agencies to address these important and, at times, vexing issues, and to help meet the challenges. The membership of NAIHC is expansive, comprised of 271 members representing 463[1] tribes and tribal housing organizations. The primary goal of NAIHC is to support Native housing entities in their efforts to provide safe, decent, affordable, culturally appropriate housing for Native people.

Brief Summary of the Problems Regarding Housing in Indian Country

While the country has been experiencing an economic downturn that many have described as the worst global recession since World War II, this economic reality is greatly magnified in Indian communities. The national unemployment rate seems to have peaked at an

[1] There are approximately 566 federally-recognized Indian tribes and Alaska Native villages in the United States, all of whom are eligible for membership in NAIHC. Other NAIHC members include state-recognized tribes eligible for housing assistance under the 1937 Housing Act and grandfathered in to the Native American Housing Assistance and Self-Determination Act of 1996, and the Department of Hawaiian Home Lands that administers the Native Hawaiian Housing Block grant.

alarming rate of nearly 10 percent; however, that rate does not compare to the unemployment rates in Indian Country, which average 49 percent.[2] The highest unemployment rates are on the Plains reservations, where the average rate is 77 percent.[3]

Because of the remote locations of many reservations, there is a lack of basic infrastructure and economic development opportunities are difficult to identify and pursue. As a result, the poverty rate in Indian country is exceedingly high at 25.3 percent, nearly three times the national average.[4] These employment and economic development challenges exacerbate the housing situation in Indian Country. Our first Americans face some of the worst housing and living conditions in the country and the availability of affordable, adequate, safe housing in Indian Country falls far below that of the general U.S. population.

- According to the 2000 U.S. Census, nearly 12 percent of Native American households lack plumbing compared to 1.2 percent of the general U.S. population.
- According to 2002 statistics, 90,000 Indian families were homeless or under-housed.
- On tribal lands, 28 percent of Indian households were found to be over-crowded or to lack adequate plumbing and kitchen facilities. The national average is 5.4 percent when structures that lack heating and electrical equipment are included, roughly 40 percent of reservation housing is considered inadequate, compared to 5.9 percent of national households.
- Seventy percent of the existing housing stock in Indian Country is in need of upgrades and repairs, many of them extensive.
- Less than half of all reservation homes are connected to a sewer system.

There is an agreement among most members of Congress, HUD, tribal leaders, and tribal organizations that there is a severe housing shortage in tribal communities; that many homes are, as a result, overcrowded; that many of the existing homes are in need of repairs, some of them substantial; that many homes lack basic amenities that many of us take for granted, such as full kitchens and plumbing; and that at least 250,000 new housing units are needed in Indian Country.

These issues are further complicated by the status of Indian lands, which are held in trust or restricted-fee status. As a result, private financial institutions will generally not recognize tribal homes as collateral to make improvements or for individuals to finance new homes. Private investment in the real estate market in Indian Country is virtually non-existent, with tribes almost entirely dependent on the Federal government for financial assistance to meet their growing housing needs. The provision of such assistance is consistent with the Federal government's well-established trust responsibility to American Indian tribes and Alaska Native villages.

---

[2] Bureau of Indian Affairs Labor Force Report (2005).

[3] Many of these reservations are in the state of South Dakota, which has one of the lowest unemployment rates in the nation. On some SD reservations, the unemployment rate exceeds 80 percent.

[4] US Census Bureau, *American Indian and Alaska Native Heritage Month: November 2011*. See http://www.census.gov.

The Native American Housing Assistance and Self-Determination Act

In 1996, Congress passed the Native American Housing Assistance and Self-Determination Act ("NAHASDA") to provide Federal statutory authority to address the above-mentioned housing disparities in Indian Country. NAHASDA is the cornerstone for providing housing assistance to low-income Native American families on Indian reservations, in Alaska Native villages, and on the Native Hawaiian Home Lands.

The Indian Housing Block Grant ("IHBG") is the funding component of NAHASDA, and since the passage of NAHASDA in 1996 and its first fiscal year of funding in 1998, NAHASDA has been the single largest source of funding for Native housing. Administered by the Department of Housing and Urban Development ("HUD"), NAHASDA specifies which activities are eligible for funding.[5] Not only do IHBG funds support new housing development, acquisition, rehabilitation, and other housing services that are critical for tribal communities, they cover essential planning and operating expenses for tribal housing entities. Between 2006 and 2010, a significant portion of IHBG funds, approximately 24 percent, were used for critical planning, administration, and housing management and services.

The President's 2013 Budget Request for the Indian Housing Block Grant

President Obama released his FY2013 budget request on February 13, 2012. The PBR established total spending of level of $3.80 trillion, up from an estimated $3.79 trillion enacted in FY2012. This spending level includes $44.8 billion in budget authority for HUD, a 3.2 percent increase above the FY2012 funding level.

Despite the increase in overall HUD spending, the Administration has proposed level funding for the Indian Housing Block Grant (IHBG) at $650 million for FY2013. Were the President's budget proposal to be accepted, it would mark the third consecutive year that the budget would be flat-lined. The budget proposal also includes $60 million for the Indian Community Development Block Grant program; the same level of funding that was appropriated in FY-2012 and, inexplicably, recommends that no funding be provided for NAIHC's widely acclaimed training and technical assistance (T/TA) program. NAIHC respectfully requests that the IHBG be funded at $700 million, which is still far short of the estimated need of $875 million needed due to inflation. We also request the 2013 ICDBG be set at $100 million for the much-needed housing, infrastructure and economic development activities that the ICDBG provides, and that the T/TA be funded at no less than $4.8 million.

The NAIHC is the only national Indian housing organization that provides comprehensive training and technical assistance (T/TA) on behalf of tribal nations and their housing entities. Because they know the value added by NAIHC, the NAIHC membership has voted unanimously during each of their annual conventions since 2006, to support a resolution that seeks to set-aside a portion of their own Indian Housing Block Grant funding to support NAIHC's T/TA program. In addition, NAIHC members have expressed concerns about the

[5] Eligible activities include but are not limited to down-payment assistance, property acquisition, new construction, safety programs, planning and administration, and housing rehabilitation.

quality of training provided by HUD contractors. Again, to ensure high-quality T/TA, the NAIHC should be funded at not less than $4.8 million.

Other Indian Housing and Related Programs

The Title VI and Section 184 Indian Housing Loan Guarantee Programs

The President's budget request includes $2 million for the Title VI Federal Guarantees for Financing Tribal Housing Activities and $7.0 million for the Section 184 Indian Housing Loan Guarantee Program. The Title VI program is important because it provides a 95 percent loan guarantee on loans made by private lenders, which is an incentive for lenders to get involved in the development of much-needed housing in tribal areas. NAIHC believes that the PBR of $2 for the Title VI program is sufficient. NAIHC respectively requests that the funding for the Section 184 program be increased from $7 million to the $9 million level that was Congress appropriated in FY2009.

Indian Community Development Block Grant (ICDBG)

While appreciated, the President's proposal of $60 million for the ICDBG is insufficient to meet the current needs for essential infrastructure, including sewer and running water, in Indian Country. We request that this program be funded at $100 million.

Native Hawaiian Housing

Low-income Native Hawaiian families continue to face tremendous challenges, similar to those that tribal members face in the rest of the United States. The President's funding request of $13 million for the Native Hawaiian Housing Block Grant is appreciated; however, NAIHC recommends this program be funded at $20 million. And, the budget includes $1.0 million to the fund the Section 184A program in Hawaii. The 2013 PBR of $1 million should be sufficient to fund this important homeownership program.

Training and Technical Assistance and the Proposed Transformation Initiative

The President's proposed budget eliminates entirely the much-needed, exceptional T/TA that has been provided by NAIHC since the inception of NAHASDA. The provision of T/TA is critical for tribes to build their capacity to effectively plan, implement, and manage tribal housing programs. Eliminating funding for T/TA would be disastrous for tribal housing authorities and would be a huge step in the wrong direction. Tribes need **more** assistance in building capacity, not less.

Since NAIHC's funding for T/TA was restored in 2007, requests for T/TA have steadily grown. The funding that NAIHC is currently receiving is insufficient to meet the continuous, growing demand for T/TA. Therefore, we are forced to make difficult decisions regarding when, where, and how to provide the most effective T/TA possible to our membership.

The budget request proposes an agency-wide Transformation Initiative Fund ("TIF") with up to 0.5 percent of HUD's total budget, which would draw funds away from essential housing programs, including $3.3 million from the IHBG account, "to continue the on-going comprehensive study of housing needs in Indian Country and native communities in Alaska and Hawaii." While the NAIHC membership believes the TI may have merit, we do not believe that transferring nearly $3.3 million from the IHBG is a wise or even defensible use of IHBG funds.

More importantly, the $3.3 million affects funding that has historically been appropriated to NAIHC for T/TA. As I have previously noted, the NAIHC membership has repeatedly taken the position that a portion of the IHBG allocation should be provided to NAIHC for T/TA, which is a reflection of their confidence in NAIHC and the continuing demand for the essential capacity-building services that we provide. We request that funding in the amount of $4.8 million for T/TA be included in the FY2013 budget.

Conclusion

NAHASDA was enacted to provide tribes with new and creative tools necessary to develop culturally appropriate, safe, decent, affordable housing. While we value and appreciate the investment and efforts that this Administration and the Congress have made, NAIHC has very specific concerns, enumerated above, with the President's proposed budget for the Indian housing funding levels and hopes that Congress, with the leadership of this important Committee, will work with the NAIHC and the Administration to recognize the acute housing and capacity building needs that continue to exist in tribal communities.

Consider these needs against a backdrop that includes the following observation from the Government Accountability Office (GAO) in their Report 10-326, Native American Housing, issued in February 2010 to the Senate Committee on Banking and the House Committee on Financial Services:

> NAHASDA's first appropriation in fiscal year 1998 was $592 million, and average funding was approximately $633 million between 1998 and 2009. The highest level of funding was $691 million in 2002, and the lowest was $577 million in 1999. For fiscal year 2009, the program's appropriation was $621 million. However, when accounting for inflation, constant dollars have generally decreased since the enactment of NAHASDA. The highest level of funding in constant dollars was $779 million in 1998, and the lowest was $621 million in 2009. [6]

I wish to conclude this written testimony by thanking Chairman Latham, Ranking Member Olver, and all of the members of this Subcommittee for letting us express our views and our aspirations. The path to a self-sustaining economy is not achievable without a robust housing sector and tribal housing conditions will not be improved without adequate funding. NAHASDA is not just about constructing houses. It is about building tribal communities—communities where health and safety are a top priority and where education can take thrive. I know we can count on you to support our efforts. Together, we can continue the important work of building communities in Indian Country.

[6] See GAO Report 10-326 at www.gao.gov/products/GAO-10-326

WITNESSES

	Page
Bertram, Chris	1
Bogdan, T. J	416
Capon, R. B	434
Causley, C. A	445
Cook, Kristina	438
Corless, James	424
Donovan, Hon. Shaun	45
Hamberger, E. R	410
Herr, P. R	273
Hilton, Cynthia	412
Huerta, Michael	207
LaHood, Hon. Ray	1
Melaniphy, M. P	429
Melvin, V. C	273
Mendez, Victor	207
Montoya, D. A	273
Rogoff, Peter	207
Scire, M. J	273
Scovel, C. L., III	273
Simpson, Tom	410
Szabo, J. C	207
Timmons, R. F	410