

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES AP-
PROPRIATIONS FOR FISCAL YEAR 2013**

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ONE HUNDRED TWELTH CONGRESS

SECOND SESSION

ON

H.R. 5972/S. 2322

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF TRANS-
PORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RE-
LATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30,
2013, AND FOR OTHER PURPOSES

**Department of Housing and Urban Development
Department of Transportation
Nondepartmental Witnesses**

Printed for the use of the Committee on Appropriations



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**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2013**

THURSDAY, MARCH 1, 2012

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

The subcommittee met at 9:33 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.
Present: Senators Murray and Collins.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Mr. Secretary, welcome back to our subcommittee, as we are here today to talk about fiscal year 2013 budget requests for the Department of Housing and Urban Development (HUD).

As we begin our work on next year's budget, there are encouraging signs that our economy is moving now in the right direction. Although we aren't moving quickly enough for families that continue to struggle, and we certainly have a long way to go, the private sector has now been adding jobs for almost 2 years, businesses are growing, and confidence is up. We seem to have stepped back, finally, from the precipice, which, of course, is very good news for the housing market, which depends on a strong and stable economy to recover and thrive.

But despite the positive signs, we still face significant challenges. Over 22 percent of homeowners are underwater.

The recent settlement that was announced among the five largest banks, the States, and the Federal Government is an important step. It holds banks accountable and provides relief to homeowners. But the settlement also paves the way for banks to proceed with foreclosures that have been stalled in the pipeline.

While it is important to reduce the excess inventory of distressed housing, increased sales of these properties at reduced prices may further depress home values.

Climbing back from the housing crash will not be easy, and I am interested in hearing your views on how we can increase the stability of the market.

The depressed housing market has also taken its toll on the Federal Housing Administration (FHA). This is made clear in the President's budget. The budget indicates that, for the first time, FHA may require Federal funding to cover its losses. I have long been concerned about the solvency of FHA's Mutual Mortgage Insurance (MMI) Fund, and I applaud the efforts of the Administration to strengthen FHA's risk controls.

But many of the financial problems facing FHA are related to older books of business insured at the height of the housing boom. So while these changes to strengthen the program are important and long overdue, it will also be important to recover or prevent expected losses from older loans.

I am pleased that the recent mortgage settlement includes money for FHA. And other settlements, most notably Bank of America, will also provide money to cover losses related to improper mortgage originations.

These settlements should help avoid the need for taxpayer funding, and I hope you will continue to look for opportunities to recoup losses from fraudulent or poorly underwritten loans.

Additional changes to FHA premiums contained in the budget, as well as those announced on Monday, represent your continued efforts to improve the solvency of the MMI Fund and protect the taxpayer from having to cover its losses.

Beyond FHA, today we will also examine other aspects of the Administration's request, which is \$44.8 billion in gross resources to support HUD's programs. While this represents an increase of over 3 percent, it is largely a current services budget as a result of the numerous offsets included in the fiscal year 2012 bill.

As the Secretary's testimony notes, 83 percent of HUD's budget is dedicated to providing housing to the Nation's most vulnerable, and these programs require annual adjustments. As we continue to live under the caps of the Budget Control Act, this presents us with very difficult choices.

Last year, Senator Collins and I worked very hard to protect HUD's core rental assistance programs. But doing so meant difficult cuts to programs like the Community Development Block Grant (CDBG), HOME, and Housing for the Elderly. The cuts to CDBG that began in fiscal year 2011 are being widely felt today. Cities and towns are cutting services to vulnerable citizens, laying off workers, or delaying critical investments in their communities.

This year's budget faces many of the same challenges we struggled with last year. How do you craft a budget that protects low-income residents who rely on HUD assistance to keep a roof over their heads, makes the economic development in affordable investments that strengthen our communities, and gives HUD the tools it needs to effectively manage its programs?

While the Administration's fiscal year 2013 budget tries to address these goals by balancing priorities, I am concerned about some of the proposals. The proposed budget for Project-Based Rental Assistance will manage within the requested level by intentionally not funding contracts for a full 12 months. I have seen this policy before. And while this may be manageable in the short run, I'm concerned we won't have the resources when the bill eventually becomes due.

In the Tenant-Based Rental Assistance account, I'm also concerned that the funding level requested to renew vouchers is effectively flat, despite anticipated inflation and the need to renew vouchers for the first time. The budget also relies on savings from a number of policy changes which are not without controversy.

So as we make the difficult choices in this budget, I want to be sure we are making decisions with an understanding of their consequences and an eye toward the future.

Despite my concerns, there are some bright spots in this budget. The request, again, seeks \$75 million for new HUD-Veterans Affairs Supportive Housing (HUD-VASH) vouchers, which have really helped to reduce homelessness among our veterans by 12 percent between 2010 and 2011.

The Administration has worked hard to develop a plan to finally end homelessness, and I'm very glad the request for homeless programs reflects a continued commitment to that plan.

At a time when resources are scarce, oversight of HUD's programs becomes even more important. I look forward to continuing to work with the Department and my colleagues to find additional ways to improve HUD's programs.

I also want to acknowledge today HUD's new inspector general, Mr. Montoya, who is with us today. I welcome his vision for HUD's Office of Inspector General, and look forward to working with him to protect taxpayer dollars and improve the efficiency of HUD's programs.

The fiscal year 2013 budget, once again, requires difficult choices to be made. As I work with my colleagues, Senator Collins and those on this subcommittee, to put together this bill, I will be mindful of the millions of Americans who rely on HUD's programs for a place to sleep each night.

PREPARED STATEMENT

Mr. Secretary, I look forward to our discussion today and working with you as we develop this 2013 budget. And I appreciate everyone accommodating us in moving this hearing up.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

Mr. Secretary, I want to welcome you back to the subcommittee today as we discuss the fiscal year 2013 budget request for the Department of Housing and Urban Development (HUD).

As we begin our work on next year's budget, there are encouraging signs that our economy is moving in the right direction. Although we aren't moving quickly enough for families that continue to struggle—and we certainly have a long way to go.

The private sector has been adding jobs for almost 2 years. Businesses are growing, confidence is up, and we seem to have stepped back from the precipice. Which, of course, is very good news for the housing market—which depends on a strong and stable economy to recover and thrive.

HOUSING MARKET CHALLENGES

But despite the positive signs, we still face significant challenges. Over 22 percent of homeowners are underwater. The recent settlement announced among the five largest banks, the States, and the Federal Government is an important step. It holds banks accountable and provides relief to homeowners.

But the settlement also paves the way for banks to proceed with foreclosures that have been stalled in the pipeline. While it is important to reduce the excess inventory of distressed housing, increased sales of these properties at reduced prices may

further depress home values. Climbing back from the housing crash will not be easy, and I am interested in hearing your views on how we increase the stability of the market.

FHA SOLVENCY

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Additional changes to FHA premiums contained in the budget, as well as those announced on Monday, represent your continued efforts to improve the solvency of the MMI Fund and protect the taxpayer from having to cover its losses.

HUD'S FISCAL YEAR 2013 BUDGET

Beyond FHA, today we will also examine other aspects of the administration's request, which is \$44.8 billion in gross resources to support HUD's programs.

While this represents an increase of over 3 percent, it is largely a current services budget as a result of the numerous offsets included in the fiscal year 2012 bill. As the Secretary's testimony notes, 83 percent of HUD's budget is dedicated to providing housing to the Nation's most vulnerable.

These programs require annual adjustments. As we continue to live under the caps of the Budget Control Act, this presents us with very difficult choices. Last year, Senator Collins and I worked very hard to protect HUD's core rental assistance programs. But doing so meant difficult cuts to programs like Community Development Block Grant (CDBG), HOME, and Housing for the Elderly.

The cuts to CDBG that began in fiscal year 2011 are being widely felt today. Cities and towns are cutting services to vulnerable citizens, laying off workers, or delaying critical investments in their communities.

This year's budget faces many of the same challenges that we struggled with last year. How do you craft a budget that:

- Protects low-income residents who rely on HUD assistance to keep a roof over their heads;
- Makes the economic development and affordable housing investments that strengthen our communities; and
- Gives HUD the tools it needs to effectively manage its programs?

BUDGET PROPOSAL CONCERNS

While the administration's fiscal year 2013 budget tries to address these goals by balancing priorities, I am concerned about some of its proposals.

The proposed budget for Project-Based Rental Assistance will manage within the requested level by intentionally not funding contracts for a full 12 months. I have seen this policy before. And while this may be manageable in the short-run, I am concerned that we won't have the resources when the bill eventually comes due.

In the Tenant-Based Rental Assistance account, I am also concerned that the funding level requested to renew vouchers is effectively flat—despite anticipated inflation and the need to renew vouchers for the first time.

The budget also relies on savings from a number of policy changes, which are not without controversy. So as we make the difficult choices in the budget, I want to be sure that we are making decisions with an understanding of their consequences and an eye toward the future.

BUDGET HIGHLIGHTS

Despite my concerns, there are some bright spots in the budget. The request again seeks \$75 million for new HUD-VASH vouchers, which have helped to reduce homelessness among veterans by 12 percent between 2010 and 2011.

The administration has worked hard to develop a plan to finally end homelessness. And I am very glad that the request for homeless programs reflects a continued commitment to that plan.

HUD OVERSIGHT

At a time when resources are scarce, oversight of HUD's programs becomes even more important. I look forward to continuing to work with the Department and my colleagues to find additional ways to improve HUD's programs.

I would like to acknowledge HUD's new inspector general, Mr. Montoya, who is with us today. I welcome his vision for HUD's Office of Inspector General and I look forward to working with him to protect taxpayer dollars and improve the efficacy of HUD's programs.

CLOSING

The fiscal year 2013 budget once again requires difficult choices to be made.

As I work together with Senator Collins and my colleagues on the subcommittee to put together this bill, I will be mindful of the millions of Americans who rely on HUD's programs for a place to sleep each night.

Mr. Secretary, I look forward to our discussion today and working with you as we develop the fiscal year 2013 budget.

With that I will turn it over to my partner in these efforts, Senator Collins.

Senator MURRAY. And Senator Collins, thank you for accommodating us as well.

As all of you know, we have a vote in about an hour and 20 minutes, and I know Senator Collins and I both need to be on the floor then.

So with that, let me turn it over to my colleague, Senator Collins. Thank you for being here today.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you very much, Chairman Murray.

First, let me say how much I enjoyed working with you last year as we crafted this important appropriations bill. We did so in a truly bipartisan fashion. We share a lot of the same priorities.

And it was also a great pleasure to work with Secretary Donovan, and I appreciate his being here today as we discuss how to meet the housing and economic development needs of families and communities across our Nation.

As we begin to construct the fiscal year 2013 budget, we are mindful that we are once again operating under very difficult fiscal constraints. That is even more challenging when one considers that more than 80 cents out of every \$1 of the budget request is required just to continue serving those who currently rely on HUD for just housing support.

Addressing the ongoing challenge of homelessness remains a top priority of mine. Chairman Murray and I continue to share this commitment, particularly for our Nation's veterans. And we worked very hard last year to preserve funding for the HUD-VASH program.

One out of every six men and women in homeless shelters are veterans, and unfortunately, veterans are 50 percent more likely to fall into homelessness compared to other Americans. So I am pleased that the budget request continues funding for the HUD-

VASH program at \$75 million. This level of funding should help us serve an additional 10,000 veterans who would otherwise likely be homeless.

Veterans' homelessness fell by nearly 12 percent in the year 2010, demonstrating that these programs work. I've also always supported funding for the homeless assistance grants programs to prevent and end homelessness. The budget proposes \$2.2 billion for this program. That's an increase of approximately \$330 million over the previous fiscal year.

It is, however, important that we focus on what works. And one of the models that I've seen work in the State of Maine is the Housing First model for aiding those who are homeless.

We need better data to ensure the effectiveness of all housing programs. This particular model is proving its effectiveness in my home State of Maine through the Florence House, a comprehensive center for homeless women in Portland.

In addition to programs that effectively serve the homeless, HUD, of course, provides support for affordable rental housing. The budget proposes more than \$19 billion for the Tenant-Based Rental Assistance program, of which \$1.6 billion is available for administrative costs. That's an increase in direct response to the fact that some public housing agencies (PHAs) are having a difficult time administering their voucher programs and have actually turned back vouchers as a result, and that is very troubling.

We don't want to overpay them for their administrative expenses, but they need to have sufficient expenses to efficiently and effectively run the program.

Another important issue that I'd like to address is HUD's oversight of the Maine State Housing Authority Section 8 Voucher Program. A series of recent newspaper stories revealed troubling cases of code violations and other poor conditions in Oxford County, Maine. In fact, the local fire chief was so upset that he wrote a letter to my office, asking for my help.

HUD has an obligation to oversee the use of Federal funds of public housing agencies nationwide and to ensure that these funds are not supporting substandard properties.

I just want to share, briefly, with my colleagues and the people from HUD here, and the inspector general, one of the particular units, one of the apartments that was cited in this newspaper series. HUD was actually paying \$600 a month in Federal subsidies for an apartment that had septic backups in the kitchen sink, a damaged fire escape, and bat and rodent infestation. Totally unacceptable.

It's bad enough that taxpayers were charged for substandard units, but it's appalling that residents were forced to live in such horrible conditions. The welfare and safety of tenants must be safeguarded, and federally subsidized properties must represent fair value to both the tenant and the taxpayer alike.

I have requested the inspector general to audit HUD's oversight of the unit inspections and the Maine State Housing Authority's administration of the program. It is clearly critical that federally subsidized properties comply with all health, safety, and quality standards.

And I want to commend the Secretary for taking my concerns very seriously and for asking the Maine State Housing Authority for a corrective action plan.

And I'm also very pleased that the inspector general has stepped in and is investigating this problem.

I, too, want to echo Senator Murray's concerns about the Federal Housing Administration, which plays such a critical role in affordable home ownership. The decline in the housing market over the past several years has had a tremendous impact on families and communities throughout the Nation as well as our economy as a whole.

While I understand that HUD has taken a number of steps to increase capital reserves, it remains troubling that the capital reserve ratio remains below the congressionally mandated level of 2 percent. I'm optimistic that we'll hear some good news as a result of the settlements, but that still is of concern.

I also want to discuss in the question period with the Secretary what can be done to ensure the greater use of wood pellet heating systems in Maine that have not qualified for assistance under the FHA program. And those are increasingly popular. They are an alternative to fossil fuels. Maine is very heavily dependent on home heating oil, the price of which has spiked.

Finally, the level funding for the Community Development Block Grant program, proposed at about \$3 billion, is disappointing. This popular program supports the economic growth strategies of communities nationwide, and enables key investments in their long-term economic growth. It is programs like CDBG that help to build a foundation for future prosperity.

These are just some of the issues before our subcommittee.

PREPARED STATEMENT

And again, Madam Chairman, I look forward to working very closely with you again this year.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Thank you, Chairman Murray. I am delighted to join you once again as we start the fiscal year 2013 appropriations process and consider the Department of Housing and Urban Development's (HUD's) budget request.

Mr. Secretary, it is nice to see you again. I look forward to working with you to meet the housing and economic development needs of families and communities throughout the Nation.

As we begin to construct the fiscal year 2013 budget, we will continue to face difficult decisions given the fiscal constraints we remain under. This is even more challenging when more than 80 cents out of every \$1 of the fiscal year 2013 request is required just to continue serving those who currently rely on HUD for housing support.

Addressing the ongoing challenge of homelessness remains a top priority of mine. Chairman Murray and I continue to share this commitment, particularly for our Nation's veterans. One out of every six men and women in homeless shelters are veterans, and unfortunately, veterans are 50 percent more likely to fall into homelessness compared to other Americans.

I am pleased the budget continues funding for HUD's Veterans Affairs Supportive Housing (HUD-VASH) Program at \$75 million. This level of funding will serve an additional 10,000 veterans, who would otherwise be homeless were it not for HUD-VASH. Veterans' homelessness fell by nearly 12 percent in 2010, demonstrating that programs like HUD-VASH work.

I have always supported funding for the Homeless Assistance Grants program to prevent and end homelessness. The budget proposes \$2.2 billion for this program, \$330 million more than fiscal year 2012.

We need to focus, however, on what works such as the Housing First model for aiding those who are homeless. We need better data to ensure the effectiveness of all housing programs. This model is proving its effectiveness in my home State of Maine through Florence House, a comprehensive center for homeless women in Portland.

In addition to programs that effectively serve the homeless, HUD also provides support for affordable rental housing. The budget proposes more than \$19 billion for the Tenant-Based Rental Assistance program, of which \$1.6 billion is available for administrative costs. This represents a \$225 million increase in administrative funding from fiscal year 2012. It is my understanding that some public housing agencies are having a difficult time administering their voucher programs, including HUD-VASH, this fiscal year.

Another important issue I would like to address is HUD's oversight of the Maine State Housing Authority's Section 8 voucher program. A series of recent newspaper articles revealed troubling cases of code violations and other poor conditions in Oxford County, Maine. HUD has an obligation to oversee the use of Federal funds at public housing agencies nationwide and to ensure these funds do not support substandard properties.

One of the units cited, for which HUD was paying \$600 in Federal subsidies, had septic backups in the kitchen sink, a damaged fire escape, and bat and rodent infestation. It is bad enough that taxpayers were charged for substandard units, but it is appalling that residents were forced to live in such horrible conditions. The welfare and safety of tenants must be safeguarded, and federally subsidized properties must represent fair value to the tenant and the taxpayer alike.

I requested that the Inspector General audit HUD's oversight of unit inspections and the MSHA's administration of its program. It is critical that federally subsidized properties comply with all health, safety, and quality standards.

In addition to supporting affordable rental housing, HUD plays a critical role in affordable home ownership through the Federal Housing Administration. The decline in the housing market over the past several years has had a tremendous impact on families and communities throughout the Nation, from the huge number of foreclosures to the substantial decline in home values.

While I understand HUD has taken a number of steps to increase capital reserves, it is troubling that the capital reserve ratio remains below the congressionally mandated level of 2 percent. In questions I also want to discuss how HUD regulations can encourage the great use of wood pellet heat in FHA-assisted homes.

Finally, the level funding for the Community Development Block Grant (CDBG) program, proposed at \$2.95 billion, is disappointing. This popular program supports the economic growth strategies of communities nationwide and enables key investments in their long-term economic growth. It is programs like CDBG that help to build a foundation for future prosperity.

These are just some of the issues we are confronted with on our subcommittee this year. Chairman Murray, I look forward to working with you as we consider HUD's fiscal year 2013 budget request.

Senator MURRAY. Thank you very much, Senator Collins.

With that, we'll turn it over to you, Secretary Donovan, for your opening statement.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you, Madam Chair, ranking member, for the opportunity to be here today. 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 directly support 700,000 jobs.

Madam Chair, 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 over the last 3 years has helped 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 risks to the taxpayer and reform FHA's mortgage insurance premium structure. With the 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 just this week, we announced a series of additional premium changes that will increase receipts to FHA above those already in the budget by over \$1 billion in fiscal years 2012 and 2013.

We have also taken significant 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 America's five largest servicers, 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 current 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.

Just as importantly, while HUD's fiscal year 2013 request is \$44.8 billion in gross budget authority, because of FHA and Ginnie Mae receipts, the cost to the taxpayer for this budget is only \$35.35 billion, fully 7.3 percent below the fiscal year 2012 enacted level, more than meeting our deficit reduction targets while still allowing us to improve oversight of our core programs.

The second principle we used to develop our budget was to protect current residents and improve the programs that serve them. The 5.4 million families who live in HUD-assisted housing earn \$10,200 per year, as a median, and more than half are elderly or disabled. That's why 83 percent of our budget, as you both recognized, 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 with your colleagues to enact Section 8 reform legislation that would save \$1 billion over the next 5 years, while also supporting the ability of public housing authorities 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.

Even still, protecting current families required us to make choices we would not have made in a different fiscal environment. Requesting \$8.7 billion for the Project-Based Rental Assistance program allows us to serve the same number of families, but it re-

quired us to provide less than 12 months of funding for the majority of 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 very difficult decisions are the kinds of steps we were required to take in this difficult budget environment. That's 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 can't 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.

In Memphis, which is using HUD's Community Challenge grant to more effectively use Federal and State resources in neighborhoods surrounding its international airport, FedEx has already created over 3,000 jobs, and companies like Electrolux and Nucor Steel are poised to create another 1,500.

At a time when the fiscal environment has required us to make tough choices about CDBG and HOME—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 more smartly and efficiently.

Indeed, reducing regulatory burdens and increasing efficiency is the fourth and final principle we used to formulate this budget. For example, the budget provides flexibilities to public housing agencies to better manage in this fiscal environment. And to hold our partners accountable for the funding they receive, it also continues our Transformation Initiative (TI).

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 crosscutting technical assistance initiative targeted to PHAs so they have the capacity to manage their budgets.

TI research also allows us to propose increased investments in programs we know work, like permanent support of housing and rapid re-housing that end homelessness and save money. That's why, even in this difficult environment, as both of you have championed, we proposed 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.

PREPARED STATEMENT

Thank you for having me here today.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Chairman Murray, Ranking Member Collins, and members of the subcommittee, thank you for the opportunity to testify today regarding the fiscal year 2013 budget for the Department of Housing and Urban Development (HUD), Housing and Communities Built to Last.

I appear before you to discuss this budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again—and instead of rapid job loss, more than 3.2 million new private sector jobs have been created in the last 22 months, and national unemployment has fallen to a near 3-year low. But we know there's still more work to be done to ensure that America can create an economy built to last—with good jobs that pay well and security for the middle class.

HUD's fiscal year 2013 budget tackles these challenges head on: By helping responsible families at risk of losing their homes; by providing quality affordable rental housing to some of our Nation's most vulnerable families; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires; and by leveraging private sector investments in communities to create jobs and generate the economic growth our country needs. Indeed, this budget will support hundreds of thousands of jobs both directly and indirectly, serving as a powerful engine for job creation in the places that need them most.

Our budget provides \$44.8 billion for HUD programs, an increase of \$1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (i.e., gross budget authority) is offset by \$9.4 billion in projected Federal Housing Administration (FHA) and Ginnie Mae receipts, leaving net budget authority of \$35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of \$38.2 billion. The budget reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over \$907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. To maintain our commitment to fiscal discipline, this budget invests in improving the infrastructure and technological systems critical to reforming the Government to be leaner, more transparent, and ready for the 21st century. Moreover, by providing a menu of key reforms—including to some of our largest rental assistance programs—this budget simplifies and aligns policies to be more efficient and effective, while saving the taxpayer hundreds of millions of dollars. To be clear, not all of the reforms we're proposing are easy. Indeed, this budget makes tough choices in order to contribute to deficit reduction in a substantial way.

RESPONDING TO THE CRISIS

Much has happened in the 3 years since HUD submitted its fiscal year 2010 budget. Only weeks before the Bush administration and Congress had taken dramatic steps to prevent the financial meltdown, the Nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama administration had no choice but to take aggressive steps. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. Because low interest rates only matter if there are mortgages available at those rates, the administration also provided support for Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration stepped in to play its critical countercyclical role in helping to stabilize the housing market. The administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes—through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. Since April 2009, more than 5.6 million borrowers have received mortgage modifications with affordable monthly payments, nearly 14 million families have been able to refinance their homes, and foreclosures are down by nearly 50 percent.

CREATING AN ECONOMY BUILT TO LAST

Now, having prevented our economy from falling into a second Great Depression, the administration is focused on ensuring that we create an economy built to last, which makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using four core principles to develop our budget:

- Continuing to provide critical support for the housing market while bringing private capital back into the market;
- Protecting current residents—and improving the programs that serve them;
- Continuing progress on signature initiatives to provide communities with the tools they need to speed economic growth; and
- Reducing regulatory burdens and increasing efficiency—including streamlining, simplifying, and reforming current programs.

As such, the Department's budget for fiscal year 2013 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building—by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this budget helps:

- Give Hard-Working, Responsible Americans a Fair Shot.*—Not only is there more work to do to ensure that the economic security of middle class Americans does not continue to erode, we have a responsibility to directly address the challenges facing the most vulnerable Americans. This budget does so by serving over 5.4 million families—the majority of whom are extremely low income—in our rental assistance programs; and by supporting the Choice Neighborhoods initiative (\$150 million), which provides communities with the innovative tools they need to revitalize neighborhoods of concentrated poverty—efforts that helped communities leverage over \$1.6 billion of private funding last year alone.
- Ensure Every American Plays by the Same Rules.*—Put simply, we cannot settle for a country where a shrinking number of people do really well, while more Americans barely get by. There are still millions of Americans who have worked hard, acted responsibly, and made their mortgage payments on time—who, because their homes are worth less than they owe on their mortgage, can't take advantage of today's historically low interest rates and are facing real economic insecurity. In addition to steps taken by the administration to combat predatory lending practices (discussed in depth below), this budget provides critical funding for the Housing Counseling program (\$55 million), which will directly help over 185,000 of low- to moderate-income families in improving access to quality affordable housing, expanding homeownership opportunities, and preserving homeownership through foreclosure mitigation; as well as providing training to over 4,800 counselors nationwide.

This budget also recognizes that we can no longer tolerate a federally supported rental housing system that is “separate and unequal”—one which expects public housing authorities (PHAs) to house over 3 million families, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and begin addressing the \$26 billion in public housing capital needs, this budget includes proposals that would increase PHA flexibility to fund critical supportive services for assisted families while also moving them toward mainstream real estate financing and management practices through the consolidation of outmoded funding streams. At the same time, by implementing the second year of our Rental Assistance Demonstration, the budget will use existing resources to ensure that up to 60,000 units funded through our public housing and the so-called “orphan programs” can leverage debt to access private capital and preserve affordable housing.

Create New Jobs in America To Discourage Outsourcing.—In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the administration's broader effort to discourage outsourcing and encourage insourcing. Specifically, attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, and transportation networks that move goods and people efficiently—which is why this budget restores funding for Sustainable Housing and Communities (\$100 million), which embodies the President's commitment to being a new kind of Federal partner to regions, States, and localities as they tackle planning and economic development challenges for the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work

contributes to more and better transportation choices; promotes equitable, affordable housing; and aligns Federal policies and funding to remove barriers to local collaboration. Accordingly, we will continue to make critical investments programs such as the Community Development Block Grant (CDBG) (\$2.95 billion in formula grants) and Native American Housing Block Grant (\$650 million). In particular, CDBG is an important catalyst for economic growth—helping leaders around the country bring retail businesses to their communities, forge innovative partnerships and rebuild their economies.

Reform Government So That It's Leaner, Smarter, More Transparent, and Ready for the 21st Century.—It is clear that an economy built to last requires a Federal Government that is efficient, streamlined, and transparent. As such, the budget proposes reforms to HUD rental assistance programs that would save over \$500 million in fiscal year 2013 without reducing the number of families served—by streamlining programs and reforming policies. Moreover, this budget once again calls for the flexible use of resources (estimated \$120 million)¹ through the Transformation Initiative, which the Department needs to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

MOVING THE NEEDLE, MAKING SUBSTANTIAL PROGRESS

In short, this budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and State economies across the country. Its carefully targeted investments will enable HUD programs to serve millions of families in thousands of communities nationwide; to help create an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values.

Consistent with the previous 2 years, HUD's fiscal year 2013 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010–2015. These goals reflect the Department's—and my—commitment to “moving the needle” on some of the most fundamental challenges facing America as we create an economy built to last. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: (1) Ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies; and (2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

HOLDING OURSELVES ACCOUNTABLE: MOVING THE NEEDLE ON VETERANS HOMELESSNESS

In a year when we have troops returning from two wars, we cannot afford to waste any time in the fight to end veterans homelessness. That is why the partnership between HUD and the Department of Veterans Affairs (VA) is more important than ever. Over the last 2 years alone, HUD and the VA have collaborated through the HUD–VASH program to end homelessness for more than 40,000 veterans, far surpassing HUD's High Priority Performance Goal of 31,000. Overall, HUD and the VA have jointly committed to eliminating veterans homelessness by 2015, a goal which can only be achieved through effective collaboration, along with a joint focus on data-driven accountability as demonstrated in processes like HUDStat. VA Deputy Secretary Scott Gould and key VA program staff have become regular participants in HUDStat meetings, where together we analyze performance data to understand trends, identify best practices, and prioritize the actions needed to accelerate progress. Through this collaboration, which extends to staff throughout the country, I am proud of the work we have done to keep us on track to end veteran's homelessness by 2015. However, as President Obama has said, until we reach a day when not a single veteran sleeps in our Nation's streets, our work remains unfinished.

¹The total TI transfer authority in fiscal year 2013 is approximately \$215 million; however, HUD anticipates transferring approximately \$120 million.

HUD GOAL 1: STRENGTHEN THE NATION'S HOUSING MARKET TO BOLSTER THE ECONOMY
AND PROTECT CONSUMERS

This administration entered office confronting the worst economic crisis since the Great Depression—as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on—and bonuses with—other people's money. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our Nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges.

Responding to the Market Disruption

The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the Nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. Over the past 2 years, HUD has worked with the Department of the Treasury and other administration partners to construct a housing finance system that relies on an actuarially sound pricing structure, effective lending oversight, and adequate organizational capacity to ensure consistent access to, and liquidity and stability in, the capital markets.

In fiscal year 2013, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 0.8 million single-family mortgages (a projected \$149 billion in loan volume) and \$25 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities. The need for this investment is clear as FHA has played a critical role in stabilizing the Nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital continued to flow. However, FHA's expanded role is and should be temporary. FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, thereby laying the ground work for private capital to return to the market. FHA is particularly important to borrowers that the conventional market does not adequately serve, including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. Over half of all African Americans who purchased a home last year and 45 percent of Hispanics did so with FHA financing.

Redoubling Efforts To Keep Homeowners in Their Homes

While there is work still to be done, HUD is proud of the progress this administration has made in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started—including more than 1.7 million HAMP trial modification starts and nearly 1.2 million FHA loss mitigation and early delinquency interventions. In addition, to date, more than 930,000 HAMP trial modifications have resulted in permanent modifications—saving these households an estimated \$10.5 billion in monthly mortgage payments.

As part of the administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. Examples of our efforts include:

—*Streamline Refinance.*—An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers—particularly those whose loan value may exceed the current value of their home—and by lowering a borrower's payment, also reduces risk to FHA. And, because we see potential for more widespread use of this product, FHA will make changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

—*National First Look Program.*—A partnership between HUD, the National Community Stabilization Trust and large financial institutions that offers Neighborhood Stabilization Program grantees an exclusive 12- to 14-day window to evaluate and bid on foreclosed properties.

—*Short Refinance Option.*—In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

Finally, as another critical component to the recovery of the housing market, the President has also put forward a Homeowner Bill of Rights—a single, straightforward set of commonsense rules that families can count on when they're shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they're making the most important financial decision of their lives. And those rights shouldn't end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won't be sold in foreclosure at the same time they are filling out paperwork to get help.

FUNDING WHAT WORKS: HOUSING COUNSELING ASSISTANCE

In fiscal year 2013, HUD is requesting \$55 million in Housing Counseling Assistance to improve access to quality affordable housing, expand homeownership opportunities, and preserve homeownership, all of which are especially critical in today's economic climate. With this funding, HUD expects to serve nearly 185,000 low- to moderate-income families, as well as provide training to 4,800 counselors nationwide. HUD-approved counselors help clients learn about purchasing or refinancing a home; rental housing options; reverse mortgages for seniors; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation. In 2011, HUD-Approved Housing Counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million families, including more than 1 million potential and current homeowners with mortgage-related issues.

Strengthening FHA and Paving the Way for Private Capital To Return

The books of business in the few years before 2009 have largely driven the high number of claims to the Mutual Mortgage Insurance Fund (MMI Fund). This was driven by overall economic and unemployment trends as well as by the combined effects of poor underwriting, unscrupulous, and non-compliant practices on the part of lenders, and a seller-funded downpayment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this administration have severely impacted the health of FHA's MMI Fund. But thanks to our efforts, I can say confidently that FHA is moving in another direction, and that the long-term outlook for FHA and the MMI Fund are now much better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long-term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any administration in FHA history. Indeed, the gains FHA has experienced since 2009 are the result of a three-part strategy: Systematic tightening of risk controls, increased premiums to stabilize near-term finances and expanded usage of loss mitigation workout assistance to avoid unnecessary claims.

And, we continue to take steps to further strengthen the Fund. In the 2013 budget we announced a 10 bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35 bps. And just this week, we announced a series of premium changes that will further increase receipts to FHA by over \$1 billion in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission. In addition, we have also taken significant additional steps to increase accountability for FHA lenders. Via a final rule published a few weeks ago, we clari-

fied the bases upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid basis upon which to require indemnification by lenders for violations of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements.

The next in a series of steps we have pursued to hold lenders accountable for their actions are the recently announced settlements with some of America's largest lenders. Through these settlements, FHA will receive over \$900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: The Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio as of the end of the current fiscal year; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the Fund's capital reserve ratio has been below that 2-percent level.

The President's budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This prediction is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. In addition, the 2013 budget estimate for the FHA Capital Reserve account does not include added revenue from the additional premium increases announced this week or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all future projected losses without triggering a mandatory appropriation under the Federal Credit Reform Act. Moreover, the budget estimates that FHA will add an additional \$8 billion to the MMI Capital Reserve Account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

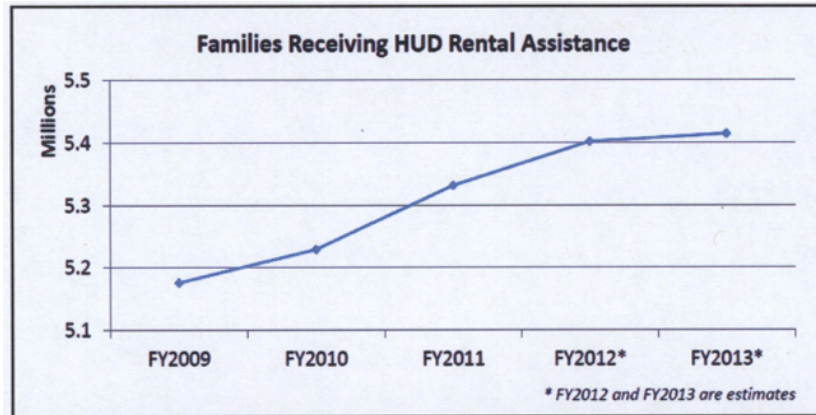
The 2013 budget also includes premium increases for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases include: 20 basis points for all new construction or substantial rehabilitation loans including but not limited to section 220, 221(d), section 231, section 242, and section 232; 15 basis points for permanent loans in section 223(f); and 5 basis points for section 223(a)(7). Premiums for affordable housing projects (such as those with HUD rental subsidies and low-income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to crowd back in private capital, while at the same time continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities—the Multifamily book of business is five times greater than it was just 3 years ago, and the risk profile has changed dramatically. FHA's portfolio is now more than 50 percent market rate, which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average timeframes and will need to be managed prudently. FHA will publish the proposed increased in the Federal Register in the next 30–60 days and welcomes feedback during the comment period.

HUD GOAL 2: MEET THE NEED FOR QUALITY, AFFORDABLE RENTAL HOMES

In an era when more than one-third of all American families rent their homes and nearly 7 million unassisted families with very low incomes spend more than 50 percent of their income on rent, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families—particularly since, in many communities, affordable rental housing does not exist without public support. HUD's fiscal year 2013 budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to States and communities to address their unique needs. Overall, 83 percent of HUD's total fiscal year 2013 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs.

And, I am proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including Tenant-Based Rental Assistance (TBRA), Public Housing, and Project-Based Rental Assistance (PBRA): 72 percent of families are extremely low income (below 30 percent of area median income) and an additional 20 percent are very low income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored last year, when HUD released its Worst Case Housing Needs study results. HUD defines worst case needs as: Renters with very low incomes who do not receive Government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs over a 2-year period in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget provides \$19.07 billion for HUD's Section 8 TBRA program, which is the Nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2013 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The budget also provides a total of \$6.6 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.5 billion) and Capital (\$2.07 billion) funds, a critical investment that will help 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$8.7 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately owned multifamily rental housing projects to serve over 1.2 million families nationwide.

TOUGH CHOICES: PROJECT-BASED RENTAL ASSISTANCE

In fiscal year 2013, HUD's Project-Based Rental Assistance request of \$8.7 billion represents a \$640 million decrease from the fiscal year 2012 enacted level. This reduction, generated by providing less than 12 months of funding upfront on some PBRA contracts that straddle fiscal years, will not reduce or delay payments to landlords or impact the number of families served by the program. Nonetheless, it is a difficult choice, and not one that the administration would choose to implement in a less austere fiscal environment.

Reducing Administrative Burdens and Increasing Efficiency

This budget recognizes the need to simplify, align, and reform programs to reduce administration burdens and increase efficiency across programs by:

- Streamlining the Public Housing Operating and Capital Funds.*—To both simplify the program and reduce the administrative burden on State and local public housing authorities, the budget proposes to combine the separate Operating and Capital funds into a single Public Housing subsidy stream. As a first step toward consolidation, the budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.
- Providing Flexibility for PHAs To Improve Supportive Services for Assisted Households.*—The budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the budget authorizes PHAs to use a portion of their Public Housing and Housing Voucher funding to augment case management and supportive services provided through FSS or provide other supportive services to increase opportunities for residents.

TOUGH CHOICES: COST-SAVINGS IN RENTAL ASSISTANCE PROGRAMS

The budget includes a menu of reforms to HUD rental assistance programs that save over \$500 million in 2013 without reducing the number of families served.

- In the Project-Based Rental Assistance program, savings are achieved by improving oversight of market rent studies used to set subsidy payment levels, capping annual subsidy increases for certain properties, and using excess reserves to offset HUD payments to landlords.
- The budget also aligns policy across rental assistance programs and reduces costs by increasing the minimum rent to \$75 per month for all HUD-assisted households, which is comparable to the minimum rent enacted in 1998, adjusted for inflation. Recognizing the potential burden that this higher minimum rent may impose, the budget maintains the current exemption for families facing financial hardship.
- Finally, this budget request reduces costs by simplifying administration of the medical expense deduction, better targeting rental assistance to the working poor in rural areas, and setting Public Housing flat rents closer to market levels.

Rebuilding Our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Over the last decade, the public housing stock has shrunk at a rate of 10,000 units per year, largely due to a growing backlog of unmet capital needs, estimated at \$26 billion. To address these challenges, HUD's 2012 Appropriations Act authorized the Rental Assistance Demonstration (RAD) to test new preservation tools for its assisted housing stock allowing for Public Housing and Moderate Rehabilitation (Mod Rehab) properties to convert to long-term Section 8 rental assistance contracts (capped at 60,000 units of converted assistance); and Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab properties, upon contract expiration or termination, to convert tenant protection vouchers to project-based vouchers. Unlike their current forms of assistance, these contracts offer a rental subsidy platform that allows PHAs and owners to leverage current Federal appropriations with other private and public capital to finance much needed rehabilitation and preserve the assets as affordable housing.

RAD is a limited demonstration, which will be evaluated to assess the success of these approaches in preserving affordable housing. Since HUD will use funding appropriated for existing programs for implementation and anticipates strong interest in RAD, the 2013 budget includes a request to exempt Mod Rehab from the 60,000 unit cap on projects that could convert assistance, at no cost, to long-term Section

8 rental assistance contracts. If enacted, the 60,000 unit cap would apply to public housing conversions alone, while the number of Mod Rehab conversions would not be constrained.

FUNDING WHAT WORKS: TAKING JOBS-PLUS TO SCALE

The budget provides that up to \$50 million of Public Housing capital funds may be targeted to Jobs-Plus competitive grants to fund scaled-up implementation of the Jobs-Plus model—a successful, evidence-based strategy to increase the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This investment will increase employment opportunities for over 30,000 Public Housing residents, by helping them secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit (EITC). A randomized experiment evaluation of the Jobs-Plus model in three demographically diverse sites found that, on average, participants had an additional \$1,300 in earnings every year from 2000 to 2006—and these earning increases were durable beyond the period of the intervention. Jobs-Plus competitive grants will scale up this proven model by targeting resources to high-capacity PHAs and housing developments with enough work-eligible residents to achieve economies of scale. The grants will prioritize broad and diverse local partnerships that cut across sectors, agencies, and funding streams.

Increasing the Production of Affordable Housing Capital Projects

In addition to developing tools to address the growing capital needs of America's Public Housing stock, HUD is committed to expanding the supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, and, most importantly, economic self-sufficiency. Accordingly, in fiscal year 2013 HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit (LIHTC) program a more flexible and nimble tool for the creation and preservation of affordable housing. As the primary tool of the Federal Government for developing and rehabilitating affordable rental housing, the LIHTC program is administered by State agencies with the assistance of guidance from the Treasury Department and the Internal Revenue Service, and attract capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generated \$2.7 billion in State, local, and Federal revenues. In fiscal year 2013, as part of a broader effort to align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most. Specifically, the revenue provisions of the 2013 budget enhance two revenue proposals that were included in the 2012 budget and introduce two new proposals:

- An Income Averaging proposal would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an average income no greater than 60 percent of AMI, with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.
- In the context of preserving, recapitalizing, and rehabilitating existing federally assisted affordable housing, a Basis Boost proposal would provide a second mechanism for earning "4 percent" LIHTCs and would give an extra, up-to-30-percent increase in qualified basis for certain projects that receive "4 percent" LIHTCs, either because they are at least half financed with tax exempt-bonds or because they employed the new mechanism.
- A proposal concerning LIHTCs earned by Real Estate Investment Trusts (REITs) is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns

LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT's LIHTCs.

—A Victims of Domestic Violence proposal would bar LIHTC buildings from discriminating against victims of actual or threatened domestic violence and would clarify that occupancy restrictions or preferences for such victims are an allowable exception to the general-public-use requirement.

Finally, the recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. In addition to the Worst Case Housing Needs report, the most recent data available from the American Housing Survey shows that, for renters below 50 percent of area mean income, the shortage of affordable and available units increased from 5.2 to 6 million from 2007 to 2009, with just 39 affordable and available units for every 100 renters in 2009, compared to 44 [units] 2 years prior. The 2013 budget once again provides \$1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF was designed to provide capital resources to build and rehabilitate housing to fill this precise—and growing—gap in the Nation's rental housing market. The time has come for Congress to provide this crucial funding.

HUD GOAL 3: UTILIZE HOUSING AS A PLATFORM FOR IMPROVING QUALITY OF LIFE

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2013 budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness, Serving Our Nation's Most Vulnerable

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost-saving in public health, criminal justice, and other systems. This year's budget once again invests in this critical effort, by providing \$2.23 billion in Homeless Assistance Grants, including competitive programs that annually serve over 800,000 homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program—funded by the Recovery Act—that in the last 3 years alone has helped prevent or end homelessness for over 1.2 million people nationwide.

Moreover, HUD continues to focus on the unique needs of veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our Nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this budget includes \$75 million for the HUD-VASH program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the nearly 38,000 already allocated HUD-VASH vouchers provided in previous appropriations, which have been critical to a 12-percent reduction in veterans homelessness, and the 10,000 vouchers that will be awarded through the fiscal year 2012 appropriation.

INCREASING EFFICIENCIES: MODERNIZING THE HOUSING OPPORTUNITIES FOR
PERSONS WITH AIDS (HOPWA) PROGRAM

The budget proposes to update the HOPWA program to better reflect the current understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. This modernization includes a new formula that will distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates in order to target funds to areas with the most need. It also makes the program more flexible, giving local communities more options to provide timely, and cost-effective interventions. The budget's \$330 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay in therapy, and therefore improving health outcomes for this vulnerable population.

Investing in Leveraging and Serving Our Most Vulnerable

This budget provides a total of \$625 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes \$154 million to support 5,300 additional supportive housing units. Doing more with less, the budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to nonprofit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012, HUD began providing operating assistance to State housing agencies that formed partnerships with State healthcare agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low Income Housing Tax Credits, 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 healthcare agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2013, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding. Assuming requested statutory language is enacted, up to 3,450 units could be made available with support from this project rental assistance.

HUD GOAL 4: BUILD INCLUSIVE SUSTAINABLE COMMUNITIES FREE FROM
DISCRIMINATION

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and most importantly, economic self-sufficiency. As such, HUD's fiscal year 2013 budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly, their people.

Each year HUD dedicates approximately 15–20 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. Programs such as the Community Development Block Grant (CDBG), and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—tend to assist areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing

The budget demonstrates the administration's continued commitment in a constrained fiscal climate to support municipalities and States as they navigate through a challenging fiscal climate. By maintaining the fiscal year 2012 CDBG formula funding level of \$2.95 billion, CDBG will allow over 1,100 State and local governments to improve living conditions in low- and moderate-income neighborhoods across the country. As the Federal Government's primary community development program, CDBG serves as the backbone of State and local community and economic development efforts. In fiscal year 2011 alone, local governments used CDBG funding to directly create and retain 21,482 jobs, not including any indirect effect on additional jobs. Moreover, in fiscal year 2011 CDBG assisted 96,615 households to maintain or gain access to safe, decent, and affordable housing; provide public service activities to 10.1 million people; and benefit approximately 4.1 million persons through public improvement investments. CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements, and economic development assistance—despite growing needs, local governments have often had no choice but eliminate some of these activities from their own budgets.

TOUGH CHOICES: HOME INVESTMENT PARTNERSHIPS

The HOME Investment Partnerships program is the principal tool for the production of affordable housing for low- and extremely low-income families by State and local governments. It is also the critical gap financing for LIHTC projects—it has created over 1 million units and an additional 250,000 households have been assisted with temporary rental assistance since the program's inception. The program leverages \$4 in other public and private funds for every HOME dollar invested, totaling more than \$88 billion over the life of the program.

The fiscal year 2013 HOME request reflects the difficult choices HUD was faced with, in order to make real progress in reducing the national deficit and contribute to creating an economy built to last. American families are tightening their belts—and we need to do the same. In addition, the fiscal year 2013 budget includes two proposed HOME authorizing requests: To Permit recaptured Community Housing Development Organizations set-aside funds to be reallocated by formula as HOME funds; and to facilitate the removal of dangerous tenants from HOME properties. We look forward to working together on these proposals.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built to last if: A fifth of America's children live in poverty, at a cost of \$500 billion per year—fully 4 percent of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2013 budget provides \$150 million for the Choice Neighborhoods Initiative to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. This will reach four to six neighborhoods with implementation grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve the economic conditions in their surrounding communities. Moreover, the leveraging power that these grants have is real—to date, the five Choice Neighborhoods implementation grantees have leveraged a combined \$1.6 billion in private funds—over 13 times their total grant award amount.

The Choice Neighborhoods initiative is a central element of the administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past,

many Federal grant programs followed a rigid, top-down, “one-size fits all” approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Supporting Sustainable Communities and Innovative Infrastructure Planning

Creating an economy built to last requires creating jobs here in America to discourage outsourcing and encourage insourcing. But attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses, and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every \$1 they earn on housing and transportation combined.

With these realities in mind, the fiscal year 2013 budget supports the multi-agency Partnership for Sustainable Communities, an administration initiative that integrates resources and expertise from HUD, the Department of Transportation, and the Environmental Protection Agency. In particular, the budget restores \$100 million for the Sustainable Communities Initiative, which creates incentives for communities to develop comprehensive housing and transportation plans to achieve sustainable development, reduce energy consumption and greenhouse gas emissions, and increase affordable housing near public transit. This includes \$46 million to fund about 20 additional regional planning grants to help enable communities to align public and private investments in housing, transportation, and infrastructure to strategically integrate goals for mobility, regional housing choices and economic development. In addition, \$46 million will be invested in neighborhoods and communities to update building codes, zoning, and local planning efforts as complementary strategies to the regional grants.

We know how important these planning tools are to regional economies—particularly those which rely on integrated supply chains that cross national borders and are essential to meeting the President’s charge to double U.S. exports over the next 5 years. These investments will also leverage and increase the ripple effects of other administration proposals to overhaul America’s deteriorating infrastructure, including the Infrastructure Bank, as well as Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments.

FUNDING WHAT WORKS: THE LEVERAGING POWER OF SUSTAINABLE COMMUNITIES FUNDING

In fiscal year 2010, Austin, Texas, was provided a \$3.7 million Regional Planning grant through the Sustainable Communities program. With this funding, the city is helping link its long-term regional transportation plan to 37 mixed-income communities near transit and job centers. This grant will help 3,000 small, family-run businesses expand or open a second location, provided that each of these businesses hires at least one new worker who has been unemployed for a year or more. This work is expected to create more than 7,000 permanent jobs and save the taxpayer \$1.25 billion through better connected housing and businesses, more people employed and fewer people dependent on Government services.

Ensuring Inclusivity in Housing Nationwide

An inclusive community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the Federal Government whose primary purpose supports private efforts to educate the public about fair housing rights and conducts private enforcement of the Fair Housing Act. In

fiscal year 2013, HUD is requesting approximately \$41 million in FHIP funds, representing the Department's commitment to fair housing, including \$28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition, it will fund fair housing education at the local, regional, and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. FHAP provides funding for 98 Government agencies, including 37 States, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law. In fiscal year 2013, HUD is requesting approximately \$25 million in FHAP funds.

Ensuring That an Economy Built To Last Includes Opportunities for Rural Americans

The administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy—particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. Each year, HUD invests billions of dollars in rural communities through its core rental assistance programs and block grants. The Community Development Block Grant (CDBG) program allocates funds to States, which provides approximately \$692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, States annually spend over 55 percent of their CDBG funds on basic public improvements such as water and sewer lines, paved streets, and fire stations. HUD also funds over \$300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnerships program, directly and indirectly supporting over 5,360 jobs.

In addition, HUD and the Department of Agriculture meet regularly through an interagency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher, Public Housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, HUD's Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately \$545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." In addition to these critical investments, targeted rural investments in HUD's 2013 budget include:

- \$5 million in Rural Housing Stability Assistance Program (RHSP), as authorized in the Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH Act), designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In addition to this focused RHSP initiative, rural communities will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant, the Emergency Solutions Grant (ESG) program, and the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the State. In 2010, the Continuum of Care competition included a selection priority for new projects proposing to serve 100 percent rural areas. Organizations in 69 rural communities submitted applications for 108 new projects, requesting \$19 million. HUD will apply the rural selection priority to new projects in the 2011 Continuum of Care competition as well.
- \$731 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed by pro-

viding funds to over 550 tribes across the country. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

HUD GOAL 5: TRANSFORM THE WAY HUD DOES BUSINESS

An economy built requires a Government that's leaner, smarter, more transparent, and ready for the 21st century. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before—HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices—roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2013 budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time. The Transformation Initiative

Thanks to congressional support for the Transformation Initiative (TI), past fiscal year appropriations are today funding a wide range of groundbreaking projects, including:

- Innovative, “silo-breaking” OneCPD technical assistance in communities across the country that replaces a fragmented broken system with one that addresses the holistic and cross-cutting needs of our grantees, recognizing that these extend beyond the rules and regulations of any single funding stream;
- Major evaluations and demonstration programs to examine the outcomes of key administration initiatives like the Rental Assistance Demonstration and Choice Neighborhoods, the cost to local public housing authorities of administering the Housing Choice Voucher program, different approaches to rent reform in our largest programs, the housing needs of Native American and Hawaiian communities, and the impact of housing and services interventions on homeless families;
- Replacement of 30-year-old technology and information management practices to reduce risks, and implement higher performing, and cost-effective business solutions to more effectively administer the Department's rental housing assistance programs.

The 2013 budget request once again includes transfer authority (up to 0.5 percent at the Secretary's discretion, totaling up to \$215 million) to support ongoing improvements of program effectiveness and efficiency and to help the Department respond and adapt more effectively to its rapidly changing operating environment.² TI is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. Since TI was first enacted in 2010, it has bolstered the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs, and remains the primary source of funding for this transformation. Further, TI has provided a mechanism for innovative, crosscutting technical assistance that goes beyond program compliance to improve grantee capacity, performance, and outcomes. Finally, 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. Setting aside a portion of HUD's program accounts through TI to better understand and enhance program results reflects recognition that planning for continuous improvement and innovation, investing in tools and capacity, and assessing results are equally integral for the operation of programs with accountability to the public interest.

Research and Evaluations

As an integral component of strengthening HUD's capabilities for evaluating and improving program effectiveness and efficiency, TI provides a predictable stream of funding for high-quality research and evaluation of HUD's programs on an on-going, rotating basis to inform sound policymaking. HUD anticipates allocating 10–20 percent of TI transfers to Research and Evaluations in 2013. Expected projects include:

²HUD estimates that it will transfer approximately \$120 million into TI in fiscal year 2013.

A process evaluation of the evidence-based Jobs-Plus pilot, seeking to understand the effects of larger scale implementation; energy efficiency and utility costs analysis for PHAs and residents of public housing; biennial research NOFAs for Sustainable Communities Research Grants to inform local governments in preparing and planning for disasters; and a long-overdue follow-up to a 1995 HOME Affordability Study to assess affordability over time based on differing levels of subsidy.

Program Demonstrations

Program Demonstrations test new options for HUD programs that can make them more efficient and effective and establish sound evidence of whether and how these options could better achieve HUD's mission. Since the 1990s, HUD has done relatively few research demonstrations, largely due to budget constraints. Those few demonstrations, however, have been HUD's most important and informative research on real program impacts. In 2013, HUD expects Project Demonstrations to include research on the Rental Assistance Demonstration (RAD), which allows a trial conversion of public housing and certain multifamily properties to long-term project-based contracts.

Technical Assistance

Technical assistance (TA) can be seen as a "force multiplier"—making program dollars go further and helping communities do more with limited Federal and local resources. TA under the Transformation Initiative (TI-TA) allows HUD to combine assistance for different programs as appropriate, and provide customized help on the issues any particular grantee confronts.

In 2013, HUD will utilize TI-TA for activities such as: Assessments and targeted interventions for PHAs; helping local government comprehensively assess market trends and implement housing and community and economic development programs through OneCPD; and targeting underlying, long-term problems like deficits and poor bond ratings through the National Resource Network. Flexible, cross-program technical assistance could also help grantees and clients adapt to new HUD policies, programs, and management approaches, and develop core skills and critical competencies required to effectively deliver HUD's programs.

Information Technology

The budget proposes to again use TI funds for Information Technology in 2013, to reduce risks, implement higher performing standards, and cost-effective business solutions.

IT transformation efforts to date have helped HUD evolve its understanding of opportunities to leverage the foundational toolsets being implemented under the FHA Transformation, the Next Generation Management project or NGMS (formerly known as NGVMS), and related infrastructure modernization projects. These opportunities include ways to further reduce the Government's risk in the marketplace, improve services to meet the needs of our citizens and employees and reduce annual operations costs. For example, recent efforts to define opportunities to reduce cost by consolidating back office business and administrative services are expected to lead to the need for capital investment to transition more of HUD's services from legacy platforms to shared enterprise services. HUD plans to use TI transfer authority in 2013 to make capital investments in IT to drive these service delivery improvements and further cost reduction efforts.

CONCLUSION

Madam Chairman, this budget reflects the administration's recognition of the critical role the housing sector must play to ensure every American gets a fair shot, everyone does their fair share, and everyone plays by the same rules. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's 2013 budget proposal isn't about spending more in America's communities—it's about investing smarter and more effectively.

It's about making hard choices to reduce the deficit—and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

I believe that this budget will contribute substantially to economic recovery, to creating pathways to opportunity, and to an America built to last. Thank you.

Senator MURRAY. Thank you very much, Mr. Secretary. Let me begin by asking you about the status of the FHA's Mutual Mort-

gage Insurance Fund. Given the seriousness of this housing crisis, it's not surprising that FHA has sustained significant losses, and the capital reserve account has served its purpose by covering those unexpected losses.

But I was concerned when the President's budget stated that \$688 million would be needed to cover FHA losses in fiscal year 2012. Both the recent settlements and announced premium increases are expected to improve the MMI Fund financial position, but I wanted you to update us this morning on the financial condition of the MMI Fund, of the FHA's MMI Fund.

MUTUAL MORTGAGE INSURANCE FUND

Secretary DONOVAN. As you correctly stated, the information that was in the budget was outdated on the day it was published. And in fact, we were waiting to make final decisions about premium increases until we knew the outcome of the settlement. I wish that had been resolved before the budget was finalized, but it wasn't. And that's the reason for what was shown in the budget.

Having said that, with the \$900 million that I described that is the result of our work to recover for bad loans in the FHA program that are in the settlements, and in addition, the premium increases that we have announced this week, we do expect that the fund will remain positive this year.

In addition, because of those steps that we have taken, the fund will be in a stronger position when the next actuarial study is done in the fall. That's the most comprehensive look, looking forward. And we do expect that these changes that we have made will put us in a significantly better position come fall.

But again, we have to be vigilant. And we will take additional steps, if necessary. The single-most important determinant of the health of the fund is where house prices go this year and beyond. And so we will continue to be vigilant and watch carefully to make sure, if we have additional steps that we need to take, that we can work with the subcommittee to take those.

Senator MURRAY. So what are the risks and opportunities that we need to look at? The housing prices this year. What other things?

Secretary DONOVAN. Specifically for the re-estimate this year, the only things that will affect that number are the premium increases, and so implementing those very quickly is critical, and the levels of loan volume that we have this year. Our estimates are that it would take loan volumes that are more than 20 percent below our expectations to threaten the fund through the re-estimate this year.

More importantly, for next year, as we go to do the new actuarial study, the single-most important factor is house prices. Our estimates last year showed that it would take greater than a 4-percent reduction in house prices this year. Our base case predicted a 1-percent increase. It would take more than a 4-percent reduction in house prices this year to push the fund negative.

That was before the premium increases that we have implemented. So in fact, our estimate now is that it would take a much larger decline in house prices, much larger than that 4 percent, to put the fund in a negative position for the re-estimate next year.

Senator MURRAY. Okay, and you decided to increase the upfront and the annual premium. Can you tell me how that will affect worthy borrowers who are trying to access credit?

Secretary DONOVAN. As you know, Congress made the decision to include a 10-basis-point increase in our single-family programs as part of the bill that extended the payroll tax deduction. In addition, we included a 75-basis-point increase in the upfront premium. The 10 basis points equates, for the average loan, to about \$9 a month for a borrower, and the upfront premium increase is about \$5 a month for the typical borrower.

The only places where those increases are significantly larger is for jumbo loans, those over \$625,000, where we thought it was prudent to include a larger increase. And so for those borrowers, because the average size of the loan is much larger and because the increase is more, the increases would be significantly larger.

SETTLEMENTS WITH LENDERS

Senator MURRAY. Okay, thank you. The joint Federal-State servicing settlement and the settlement with Bank of America represent not only a significant monetary award, but they also really send a message to FHA program participants that there are serious consequences to not following the rules.

Just last week, settlements with two additional lenders were announced. And since most of the losses to the MMI Fund stem from loans insured prior to the reforms you implemented in 2009, it's really important to pursue opportunities to prevent or recover losses from those books of business.

Are there additional measures that FHA can take to improve the outlook for riskier loans that it already has on its books?

FEDERAL HOUSING ADMINISTRATION INDEMNIFICATION

Secretary DONOVAN. There are.

First of all, let me just compliment David Montoya, our inspector general, and his team for their remarkable work to lead to both the servicing settlement and these additional settlements. They partnered very, very closely with us and the Department of Justice to allow us to make those recoveries, not just in the servicing settlement, but from Bank of America, Citibank, and Flagstar. So those are very important steps, and I just want to compliment him and his team.

The additional steps that we could take—there are a number of them that require legislative change. I'm happy to say we're working closely with your colleagues on the authorizing side as well as Members of the House on the authorizing committee.

There is a bill in the House that includes a number of the steps that would allow us to step up our enforcement. And those build on the recent regulation on indemnification that we put out, which will allow us to further hold lenders accountable for those prior loans that didn't meet FHA standards.

Senator MURRAY. Okay. We all think the FHA's current outsized role in the market is unsustainable. There's no one who doesn't think differently. But it still remains difficult for qualified Americans to get a mortgage today. And the market's recovery, as we all know, is still very fragile.

If FHA steps too quickly, it could have some serious consequences, not only for our overall economy, as we all know, but for the solvency of the MMI Fund. And I wanted to ask you how you balance the continued need for FHA to help provide access to credit with making room for private capital to return to the market.

Secretary DONOVAN. Senator, you've asked the \$64 trillion question. This is what keeps me up at night, and this is exactly the key question that we have to balance.

And frankly, it is not just helping the broader market recover, but if we were to take steps to increase our premiums too quickly, to take steps that would hurt the market recovery, we actually hurt the FHA fund and taxpayers, because our old investments, that trillion-dollar portfolio, will perform much worse.

And so in the steps that we have taken—and you asked exactly the right question, “What’s the effect for the average homeowner?”—we felt that \$14 a month, on average, was acceptable, particularly given that we have record low interest rates today.

We honestly feel that the biggest barrier holding back lending—and I agree with you, too many qualified borrowers aren’t able to get lending today—

Senator MURRAY. Yes.

Secretary DONOVAN. It isn’t the pricing that’s the biggest barrier. It would be if we went too quickly on raising our premiums. The biggest challenge is the uncertainty that’s out there in terms of how we will enforce our rules. So we have to make clearer what the rules will be.

That’s why our indemnification rule clarifying it is important. It is why we think the Federal Housing Finance Agency needs to put out a clear policy on buybacks that will allow Fannie and Freddie lenders to know what to expect. And it is why the servicing settlement was important as well. It created a single, clear, strong set of servicing standards and clarified foreclosure processes around the country so that that market can move forward with greater certainty.

And again, it is always hard to get that balance perfectly. I wouldn’t say we are ever done. I sleep on this every night. But it is a critically important balance, and I just thank you and the ranking member for your understanding of that balance.

Senator MURRAY. Okay, very good. I appreciate that. Thank you.

PROJECT-BASED RENTAL ASSISTANCE SHORT FUNDING

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman.

I want to go back to an issue that Senator Murray touched on in her opening statement.

I am concerned by the Administration’s proposal to fund thousands of Project-Based Rental Assistance contracts for less than 12 months. The reason I’m concerned is that short-funding these contracts may create a perverse incentive for landlords not to invest in maintenance, to cut expenses, to the detriment of some of our most vulnerable households, because of the risk of whether or not the full appropriations for the remainder of the year is ever going to come through.

I'm also troubled that some owners may decide to leave the program altogether rather than take that risk. I know this had to be a difficult decision, and it clearly was budget-driven. But how is HUD going to mitigate these risks to the program and to the residents?

Secretary DONOVAN. Senator, first of all, let me say thank you for recognizing this issue. This was one of the most difficult decisions we made in our budget. Personally, for me, having run the multifamily programs my first time at HUD, it was particularly difficult, because I know the impacts.

What I would say is, there are two real risks here. One is an operational risk that we will not be able to mechanically get the contracts funded with the short-funding. That happened in the past when these contracts were short-funded. And I can assure you that I and my team have worked very hard to make sure that the operational processes are improved. And in fact, over the last 4 years, we haven't had those same kind of issues that might spring up with the short-funding.

We also, operationally, have taken a lot of steps to make sure we have processes in place to monitor the physical condition of the units. So I appreciate your concern about whether this will lead to decreased maintenance. We have new risk ranking and reporting that we do on these units. We have quality control around our Real Estate Assessment Center (REAC) process that we have stepped up. Those are all things that are critical to make sure that the kind of effects that you talk about don't happen.

The other risk is an uncertainty around funding, and you mentioned that as well. And that's one where, frankly, because there is private capital that supports these units, it is critical that we not create too much uncertainty around these programs. And I do think that is one of the risks here.

I think what is very important is that we work together to make very clear, as Congress has always done, that the funding is available for these units. We signed 20-year contracts knowing that they're dependent on appropriations each year. And the market has been confident that that funding will be there. And we want to make clear despite this short-funding that we will do everything on our side, and I know that you will as well to continue this funding and make sure that it is available in subsequent years.

SUBSTANDARD UNITS IN MAINE

Senator COLLINS. Let me now turn to the issue that I mentioned in my opening statement about the poor living conditions in some of the HUD-subsidized units in Maine. I'm troubled by this not only because taxpayers shouldn't be paying for poorly maintained units, but because the health and the safety of the people living there is clearly at risk. So something went dramatically wrong with the oversight and inspection process.

I was also troubled when we learned of the outright fraud in some of the public housing agencies last year. I believe the one in Philadelphia, in particular, was found to have fraud.

So what investments is HUD making in this budget to ensure that you have quality controls, internal controls, effective audits, a very close relationship with the IG to ensure that we are not wast-

ing taxpayer dollars on substandard units that are unsafe for the tenants, or on outright fraud where people are stealing money that belongs to the taxpayers and is not benefiting those who need it most?

Secretary DONOVAN. First, Senator, let me just thank you for your directness and your focus on these problems—both you and Senator Murray.

Where there are issues, where we have made mistakes, and this was clearly—there were mistakes made on these units. You’ve been direct and held us accountable to correct those.

And I hope you’ll agree that when we discovered these problems, we worked very closely with you, with David Montoya, and I want to really recognize him and his team. We are taking steps specifically in Maine that I think will lead to better management going forward.

The contracts with the inspectors, the companies that were doing the inspections, have been rescinded. Those are being brought back in-house to improve the inspections there. And we have a very specific plan that we are monitoring for correction of other quality control and things within the main housing authority to make sure those are better.

But I think there are lessons, and you rightly point to this. What lessons can we learn more broadly for the work that we are doing across the country? And there are really three things there.

One is, we have to make better use of our existing resources, staff, and our partnerships with the IG to improve oversight. We have, in our budget, proposed shifting public housing staff into field offices to increase direct oversight.

We have also made sure that we are utilizing our enforcement center, which previously didn’t work as closely with public housing authorities. Just in 2011, and so far in 2012, we have used the enforcement center to review 140 public housing agencies across the country. And so that is a better use of existing resources.

The second, we have to do better in coordinating our inspection systems. To date, we have one inspection system using REAC for our project-based units in public housing. We have a separate system for voucher units. What we have started now is a pilot to use our REAC inspections for quality control and oversight, where they will go behind local inspectors and make sure that the results that they’re getting are, in fact, accurate.

And that’s something that we plan to expand and potentially, in the future, to merge those two systems, so we have a single set of strong standards for inspections across all our programs.

The third thing is, with your help, the investments we are making in information technology. Our Next Generation Management System for our voucher program will allow us to do things—just to give you one example, right now, we don’t have the ability to look at the photographs that are taken on those inspections. There’s nothing that replaces actually seeing, with your own eyes, what happens. And this system will allow us to download and view anywhere in the country the digital photographs that are taken on the inspections that local inspectors are doing.

And that’s just one example, but there’s a whole series of things in that Next Generation Management System. That’s been one of

the two biggest priorities you've had, and you've held us accountable to invest in those through our information technology. We couldn't agree more that that's a critical step we have to take in investing.

Senator COLLINS. Thank you. I do want to salute you and the inspector general for your responsiveness to the problems in Maine and across the country. It is amazing that you don't download the photographs. I could lend you my BlackBerry.

If even I can do that, it's clearly a feasible step that should be taken.

Just one very quick point: Another thing I think the Department really needs to look at is, if you have bad actors out there, you do have available to you suspension and debarment tools, where you can prohibit an individual or even an agency from being involved in your programs for a period of time. I would encourage you to make more use of those tools in egregious cases. Thank you.

Secretary DONOVAN. Thank you.

Senator MURRAY. Thank you. What's the timeline on being able to download those pictures? Do you have a—

Secretary DONOVAN. So we have—and we'll follow up with detailed information on all the different steps. Those first pieces of the Next Generation Management System are going into place this year. I think it is within a few months that we'll have the photographic capability that I talked about.

SECTION 8 VOUCHER FUNDING

Senator MURRAY. Sometimes when people know they are going to be accountable in bigger ways, it makes a huge difference, so I appreciate that.

And I echo Senator Collins' concerns about short-funding on the project-based contracts, so we'll be following that very closely from our end.

You mentioned in your opening remarks that the programs that directly support the mission of providing housing to low-income Americans, most of them who are elderly or disabled, is about 83 percent of HUD's budget. When we have continued difficult, challenging, constrained resources I know that those programs place a lot of pressure on HUD's budget.

The largest of those is the Tenant-Based Rental Assistance program, which, of course, funds the Section 8 vouchers that are used by residents to find housing in the private market.

In this year's budget, the level of funding that is requested to renew those existing vouchers is essentially flat. While the budget does assume savings associated with programmatic changes, it doesn't appear to be sufficient to cover the costs of inflation and renewing incremental vouchers for the first time. I wanted to ask you how you expect PHAs to maintain their existing voucher portfolios without those adjustments.

Secretary DONOVAN. So two things I would say about this, Madam Chair. First of all, and I think you all have been very focused on this for a number of years, is how do we balance making sure we protect every family with sort of bending the cost curve, if you will, of the renewals on these programs. And we, through the budget this year, are proposing a whole series of steps that would

allow us to serve the same number of people and keep the costs relatively flat. Some of those are choices I think that we could all agree are ones that are common sense and easy. Some of those are tougher decisions, and we'll obviously need to discuss with the subcommittee and get your views and input on whether some of those make sense.

Specifically in the tenant-based program, there are over \$200 million of savings that we are proposing to achieve. The single-biggest is to change our income targeting in rural communities to make sure that more of the working poor can be eligible for vouchers. It is part of the old Section 8 Voucher Reform Act that we are hopeful will pass in the House in the coming weeks and that we would be able to implement. I think there's broad support for those.

But we also have made proposed changes in the medical expense deductions as well as the minimum rents that would allow us to serve the same number of people.

So to be very clear, we are maintaining our commitment to serving all families there. But it did require taking a number of steps to try to lower costs next year to keep those flat and to allow us to have lower renewal costs in the out-years.

The other thing I would just say, briefly, is that an important piece here, as you both recognize, is what it takes to manage these programs. And we have been very concerned that we had two housing authorities, Milwaukee and Akron, that actually turned back HUD-VASH vouchers. I have never seen that before. Can you imagine the idea of housing authorities saying we can't serve any more homeless veterans?

And just in January alone, we had 13 different housing authorities that made the decision to turn back their broader voucher programs.

ADMINISTRATIVE FEES

Senator MURRAY. Because of the costs associated with doing them?

Secretary DONOVAN. Because they were concerned about the inability to fund those.

Last year's budget made the very difficult decision to fund the administrative fees at just over 70 percent in terms of the overall need. We are proposing a significant increase there to get above 80 percent. But we still think, even with the difficult choices that we are making, that there's still some risk that housing authorities wouldn't have enough.

So particularly that line item of admin fees is a critical piece that I think we'll need to discuss and work on this year in the budget.

Senator MURRAY. Okay. Let me ask you about that because your request does prioritize funding for Section 8 administrative fees, which have been cut significantly in recent years. Administrative fees aren't exactly an exciting part of the budget, but they do fund the basic operations.

I know you struggled with a lot of difficult choices as you put this together, but can you explain why you prioritized funding for administrative fees over other needs?

Secretary DONOVAN. Clearly, the concerns we had that I just mentioned about the number of housing authorities that have

made the decision not to serve additional veterans, the number of housing authorities—that just in January alone have determined that they did not want to continue with their voucher programs—were critical in terms of that decision.

And let me give you the precise numbers of what has been happening to administrative fees and what we are proposing.

First of all, in 2012, it was a 74-percent proration that we estimated for the budget. For 2013, what we are proposing is an 81-percent proration. Just to give you an example of where those fees were previously, it was a 90-percent proration in 2010. So even our 81 percent represents a reduction if you go back a few years.

And that leads to some of the concerns I mentioned, that even at 81 percent, we were balancing difficult decisions. I do have some concerns that it won't be enough for some housing authorities.

But I would also point out that it represents a significant increase in absolute dollars from where we were last year. And I'm just looking here for the exact number of what that is to make sure. Let me get that to you in a moment.

But there's an exact number in terms of the increase that we are proposing this year in the budget.

Senator MURRAY. Okay. I have a couple more questions, but let me turn it over to Senator Collins.

WOOD PELLET BOILER SYSTEMS

Senator COLLINS. Thank you, Madam Chairman.

I am just going to ask one more question, because I have been called to the Senate floor, and submit the rest for the record.

But this one, too, is one that I referred to in my opening statement and is extremely important to the State of Maine. Maine is the most heavily dependent of any State in the Nation on home heating oil. And when you see the spikes in oil prices that we've seen this year, and the cutbacks in the Low Income Heating Assistance Program, it is causing tremendous hardship for so many of our families in Maine.

It is also very difficult because Maine has the oldest housing stock in the Nation, and thus, there are a lot of homes that are poorly insulated that would benefit from weatherization projects. That's something we ought to invest more in as well.

The large swings in oil have caused many of our residents to look to alternatives. The wood pellet boiler industry is growing rapidly in Maine. It has the potential to help out these families, to allow them to convert from oil, but also to create thousands of new jobs in our State.

Wood pellet manufacturing, boiler technology, and pellet delivery systems have progressed dramatically since the days when you had to scoop pellets from small bags into a small stove every couple of hours. Now the industry has developed boilers that don't even require any human intervention during the day. There are automatic feeds of pellets.

HUD has been slow to consider wood pellet boiler systems as an acceptable conventional primary heating source. The reason this is important is that for the purposes of qualifying for FHA programs, you have to have a conventional primary heating source.

I wondered if you could tell me if HUD is looking to include these new wood pellet boilers as a conventional heating source, which would help more families in Maine have the confidence that they could convert to wood without losing their eligibility for FHA and other Federal housing programs.

Secretary DONOVAN. Senator, first of all, let me thank you for raising this issue and putting it on our radar screen, so to speak, at HUD. Just as we talked about with your BlackBerry a moment ago, I think we could all recognize there are moments where the Federal Government and government, in general, can be a little bit behind the cutting edge in terms of new technologies.

And I'm happy to report not just that we are looking at this, but just yesterday we updated our frequently asked questions on our Web site to tell all of our lenders that wood pellet stoves are an acceptable heating system for homes under our insurance programs. As long as they meet the qualifications that any heating system has to meet, it's an acceptable technology. We are in the process of updating our handbooks to reflect exactly that.

So not only are we considering it, but we have actually considered it and made the decision that you were absolutely right and that we should include these in our program. So thank you for bringing it to our attention.

Senator COLLINS. That's absolutely great news. Again, I thank you so much for your willingness to look at that.

The technology has changed so dramatically, and that's going to be great news to a lot of homeowners in Maine. Thank you very much.

Secretary DONOVAN. Thank you. I'll be coming to borrow your BlackBerry later.

Senator COLLINS. Any time.

Senator MURRAY. Thank you very much, Senator Collins.

Mr. Secretary, your budget assumes savings associated with programmatic changes to the HUD rental assistance accounts, including tenant-based and project-based Section 8. You talked about this a minute ago, but many of those cost-saving measurements require legislative changes, which would involve rulemakings.

What will happen to your savings estimates if all of the proposed reforms are not enacted, or they are enacted late in this fiscal year and you still need to go through the rulemaking process?

Secretary DONOVAN. First of all, Senator, just to get back on the specific number I was looking for before, the increase that we are proposing on admin fees is \$225 million this year. So it is a substantial increase, and one we thought, even in a tough environment, was absolutely critical. And as I said, we think it is the minimum necessary to try to get more confidence that housing authorities will actually be able to administer the programs.

Specifically, on your question about legislative authority, I'm happy to say that, with your urging, we are working very closely with your colleagues in the House on the authorizing committee and in the Senate here, and I am optimistic about getting that legislation passed.

The large majority of those changes would not require extensive rulemaking. There are very few that would require rulemaking. They're really around the old Rent Sup and Relocation and Acquisi-

tion Policies programs, but the large majority of them we could implement through notice. So if we do get the legislation passed, we could implement them quickly, and be prepared for 2013 to be able to implement them and get the savings that we're projecting.

Obviously, if the legislation doesn't pass, that would stop us from being able to achieve some, but not all, of the savings. We do have a share that we could achieve without legislation. And I'd be happy to follow up with a specific analysis that shows you precisely which we could do on a regulatory basis. Of the \$920 million that we are proposing over the major programs, a significant share of it we could do without any legislative change.

Senator MURRAY. Okay. If we can see that, that would be extremely helpful.

Secretary DONOVAN. Yes.

MINIMUM RENT INCREASE

Senator MURRAY. But even if HUD was able to achieve these changes at the beginning of this fiscal year, we have heard concerns that some of these proposals may harm owners and tenants alike. Specifically, some are worried about your proposal for owners to spend down their property reserves that would jeopardize maintenance and rehabilitation projects.

And I am also really concerned that raising minimum rents and increasing medical deduction for tenants could put a real burden on some of these tenants in these still tough economic times. Can you please talk a little bit about the impact you might see there?

Secretary DONOVAN. I'd be happy to. And again, let me recognize at the outset, these are not decisions we would make in anything but very difficult fiscal times, making very difficult choices. And along with the Project-Based Rental Assistance decision—the short-funding we talked about earlier—this minimum rent increase was, I think, the single most difficult decision in the budget.

And I think what's critical is that we need to clarify and make sure there's a very strong exception policy for anyone where hardship of that increased rent would result. We are expecting to do that. We are already working on clarifying and strengthening that policy. But there's no question that the impact of this will have some real consequences for families that are struggling.

We have analyzed fully in which programs what percentage of families would be affected by this, the average rent increases that would come out of this. The impact of the minimum rent is about \$150 million itself, across all the programs. And we'd be happy to share with you the specific impact that it has for the various tenant-based, project-based, 202/811, all the various programs, impacts those would have.

RAPID RE-HOUSING PROGRAM

Senator MURRAY. Okay, I would really appreciate that.

Finally, let me just talk about homelessness funding. I want to acknowledge your leadership in really developing a homelessness plan and fostering coordination across departments. It's so important, and I think we are making progress there.

I did want to ask you about the Homelessness Prevention and Rapid Re-Housing Program (HPRP), which was funded in the Re-

covery Act and designed to really help homeless families. But funding for that program ends this year. The Emergency Solutions Grant program allows communities to continue these efforts, but on a much smaller scale.

Can you talk a little bit about what the outcomes have been for HPRP?

Secretary DONOVAN. Absolutely. I am so glad you asked about it.

And let me just say, first of all, while you asked about the HPRP program, without your leadership, we would never have made the progress that we made on reducing veterans homelessness. In just 1 year, to have 12 percent fewer homeless veterans—

Senator MURRAY. Amazing.

Secretary DONOVAN [continuing]. Eighteen percent fewer sleeping on the streets; that is a huge accomplishment. And your personal leadership around HUD-VASH has made a huge difference.

Senator MURRAY. I think the cross-agency coordination on that has been really—

Secretary DONOVAN. A huge difference.

So we are concerned about the ending of HPRP, and we're concerned because it has been so effective. We thought, originally, it would reach about 500,000 people. It's already reached more than 1.2 million and still counting.

And one of the best things about it, 75 percent of the folks it has reached are homeless families, who have often been the hardest to reach.

And why have we been able to reach more families? Because what we have realized through doing this, what the data has shown us, is that for far less money than we expected, we've been able to stabilize or rapidly re-house families. It might be 1 month's rent, it might be a security deposit, it might be just a couple months of utility bills, but that's allowed us to serve far more people.

And really, I think the most exciting thing about it is, it's started to reorient many local responses to homelessness, where for the first time they see that rapid re-housing in particular is a very beneficial step. It can be particularly effective with a small amount of money.

EMERGENCY SOLUTIONS GRANT

Our hope is that by continuing to invest in it through the Emergency Solutions Grant (ESG), and I think one of the reasons that we proposed a \$330 million increase this year for our homeless assistance grant account is that we have to continue to invest in ESG. We have to grow the investment there. But it is never going to be as much as we had in HPRP.

The hope is—and we are starting to see this in some areas, and Washington has been a leader in this, of shifting resources, taking them out of, for example, shelters. Shifting them from Medicaid funding that's going to emergency rooms and putting them into rapid re-housing is lowering costs overall.

So what we are hoping we see is, with our continued increased investment in ESG, along with local investments that complement it, that we will continue to see a focused investment. We are nerv-

ous about that. We are pushing on it. I know you've been supporting it.

But it is something that I saw locally in New York, our prevention efforts, our rapid re-housing efforts. It was something we were willing to shift our funding into, and that's something we want to encourage at the local level.

Senator MURRAY. Okay. And I'll be following that very closely. So anything you can show us on that, that helps paint that picture, I'd really, really appreciate it.

But again, I appreciate the tremendous work of you and your entire staff on an issue that has been at the forefront of our Nation. Although sometimes nobody really pays attention to the programs, they really are essential in getting us back on track. And you've done a great job, and I truly appreciate it.

Secretary DONOVAN. Thank you. Thank you for your leadership and partnership.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. Thank you so much for your accommodation today. And we are going to leave the hearing record open for anyone who would like to ask additional questions.

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

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

INFORMATION TECHNOLOGY MODERNIZATION—FHA MODERNIZATION PROJECT

Question. Reliable Data is critical to effective oversight. Time and again the lack of good data has hindered HUD and the committee's work. You recognize the challenges with HUD's systems and the limitations they place on effective program management. To your credit, you have requested significant funding to update HUD's IT systems. The two biggest IT projects underway are FHA Modernization and the Next Generation Voucher Management System, which have been priorities for this committee.

While new technology has the potential to transform departmental operations, modernization is a big undertaking for HUD. In response, HUD is also changing the way it manages its IT systems. This involves a change in culture, which is never easy. What is the current status of your IT modernization efforts and these specific projects? Given the significant changes needed in process, skills, and personnel, how will you ensure that these projects stay on track and on budget?

Answer. The goal of the FHA Modernization project is to provide business process improvements and technological tools that will address longstanding constraints that have been impediments to effective risk management in our underwriting policies and practices; more robust fraud monitoring and detection; counterparty management, and portfolio analysis. The scope of the project includes incorporating a decommission plan for each legacy system targeted for replacement. Benefits of the FHA Modernization capital investment are being realized today.

The cornerstone of the FHA Modernization effort is the acquisition of what is branded as "the Federal Financial Services Platform." This investment is a configuration of commercial-off-the-shelf products which aligns FHA with products and services used by our industry partners. Moreover, the investment aligns and establishes the baseline for HUD's new and future enterprise architecture. This platform can ultimately be extended and provides the capability and capacity to replace the Unisys and IBM mainframe systems at some logical point in the future. Eighty percent of the initial planned environments are built out on the Oracle Exalogic platform; 100 percent by August 31, 2012. A requisition for additional Oracle Exalogic hardware/software is in the procurement pipeline. This additional capacity positions us to accept requirements from other offices in the Department (e.g., Public and Indian Housing (PIH), Next Generation Management System (NGMS) projects); accordingly, this achieves true enterprise capability and demonstrates scalability.

Another element of FHA Modernization is the Lender Electronic Assessment Portal (LEAP) application which consists of four modules (i.e., Approval, Recertification, Monitoring and Enforcement) that are in various stages of development and production. Today LEAP automates what largely has been a manual and paper intensive process. The LEAP application wholly aimed at improved counterparty (i.e., lender) management, addresses vestiges of risk and fraud at the front end (or origination) of the loan rather than relying on antiquated process during the post-endorsement process. The Approval module went live in April 2012 and is successfully processing a steady volume of requests. The Recertification generation I module is slated for operational capability in the second quarter of fiscal year 2013 with design and development of the other modules in ensuing months; LEAP is projected to achieve full operational capability in the first quarter of fiscal year 2014. Consistent with addressing significant constraints on risk and fraud detection, the Loan Review System (LRS), Portfolio Evaluation Tool (PET), and Automated Underwriting System capabilities are slated to achieve operational capability in early fiscal year 2014. This complementary set of tools and capabilities effectively provide decision support (and analytics) at every step in the process of the loan lifecycle, from origination through post-endorsement technical review.

Over the past 2 years, FHA has improved its project management capacity. The FHA Modernization project is staffed with a cadre of experienced and certified IT project managers, who are working exclusively on FHA initiatives. HUD continues to invest in project management training and makes this training available annually as part of its HUD Virtual University Curriculum. Over the past 2 years, FHA has actively incorporated HUD's Project Planning and Management (PPM) framework to increase the occurrences of successful project implementation. Information on the number (and types) of certified project managers is readily available. The PPM approach provides a process-centric methodological framework that is central to eliminating waste, reducing variation and ensuring projects maintain time, scope, cost, and quality congruence. The FHA Modernization effort has tremendous reach to effect sustained productive outcomes and eliminate constraints in the areas previously mentioned (e.g., counterparty management, portfolio analysis, etc.), the current culture and business practices will be modified to take full advantage of improved workflow processes, customer relationship management and improved data outputs. As new systems are brought online, staff will be trained. Training modules and on-demand refresher courses will be developed for ongoing capacity building. Hiring managers will seek to hire technology savvy candidates to maximize the capacity of FHA staff at headquarters and in the field.

NGMS is being engineered to serve as HUD's enterprise solutions for the Rental Housing Assistance (RHA) line of business (LOB). Currently, HUD provides rental housing assistance to more than 4.4 million households through at least 13 different programs, each with different rules administered by the Offices of Public and Indian Housing, Housing, Multifamily Housing and Community Planning and Development.

Currently, RHA operations relies on manual manipulation of data using Microsoft Excel and Microsoft Access, which are time-consuming, costly, inefficient, and prone to human errors. Despite these limitations, HUD continues to rely on these tools to execute critical functions that support HUD's mission. With the investment in NGMS, as an enterprise solution for the RHA LOB, HUD strives to improve operating and administrative efficiencies in providing needed services to its constituents.

During the past years, with the help of contractors, HUD conducted searches for an automated enterprise solution to satisfy requirements of RHA LOB. This was very challenging because of inherent business and organizational complexities.

The NGMS program previously focused efforts on the development of the Next Generation Voucher Management System (NGVMS). Since then, the program has been re-focused to include needed functionality to support HUD's RHA LOB. NGMS now focuses on:

- The activities necessary to develop, test, and implement Oracle Enterprise solutions as the standard technology and platform for NGMS; and
- Planning a new path forward for NGMS.

HUD has taken several positive steps to ensure the success of the NGMS program, including:

- Establishing a cross-organization Executive Steering Committee that provides program oversight and ensuring appropriate representation from the IT and business communities;
- Establishing a technology training program for HUD personnel;
- Working with the Chief Procurement Officer to enforce contract administration;
- Hiring a new overall program manager who reports directly to the General Deputy Assistant Secretary;

- Establishing a Program Management Office (PMO);
 - Supporting the PMO's efforts to improve program performance;
 - Implementing active oversight of the program;
 - Establishing a NGMS system change control process; and
 - Establishing an Executive Steering Committee (ESC).
- Going forward the overall program manager (PM) will be held accountable for the following:
- Earned value management;
 - Performance reporting;
 - Status reports;
 - Risk tracking and mitigation;
 - Issue tracking;
 - Stakeholder reporting;
 - Working with HUD's Chief Information Officer and IT vendors to make sure business and functional requirements are properly developed, tested, and implemented; and
 - Working with HUD's Chief Information Officer and oversee Independent Verification and Validation (IV&V) of developed NGMS modules.

The NGMS program has clearly learned important lessons from the previous challenging efforts. With the formal establishment of the PMO, the NGMS program, with direct oversight from the Deputy Secretary, structured development and execution efforts will allow the program to produce expected results and to avoid repeating past missteps.

Leveraging the Chief Technology Officer's knowledge and past experiences and the Federal Housing Administration's experiences, HUD chose Oracle Corporation technologies as the technology platform of choice for NGMS.

In conjunction with the Chief Procurement Officer and the Chief Information Officer, the NGMS PMO is in the process of executing the following tasks:

- Issuing task order for Requirement Definition for RHA LOB—August 2012;
- Defining business priority for the RHA LOB—August 2012;
- Developing NGMS program project plan—August 2012;
- Exploring the use of other agency's Governmentwide Acquisition Contract for architect, design, engineering and implementation—Ongoing;
- Issuing task order for PMO support—August 2012;
- Issuing task order for Independent Verification and Validation—September 2012;
- Developing training strategies for HUD technical employees—August 2012; and
- Updating business plan and Alternative of Analysis—August 2012.

Once completely implemented, NGMS will have included modules that will satisfy business requirements from offices across HUD. While all required NGMS modules are being finalized, the following modules are being considered as NGMS priorities and will be included in Phase I development:

- Budget forecasting and formulation;
- Cash management;
- Customer relationship management;
- Portfolio management; and
- New robust RHA data architecture.

INFORMATION TECHNOLOGY MODERNIZATION

Question. When do you think that we will begin to see the results of these efforts?

Answer. Benefits of the FHA Modernization capital investment are being realized today. Acquisition of the Federal Financial Services Platform (using Oracle Exalogic hardware, featuring the integrated Fusion Middleware software stack) is the cornerstone IT investment. This platform ultimately has enterprise extensibility and provides the capability and capacity to replace the less agile Unisys and IBM mainframe systems at some logical point in the future. Eighty percent of the initial planned environments have been on the Oracle Exalogic platform; 100 percent will be built by August 31, 2012. A requisition for additional Oracle Exalogic hardware/software is in the procurement pipeline. This additional capacity positions us to accept requirements from other Offices in the Department (e.g., Public and Indian Housing (PIH), Next Generation Management System (NGMS) projects), and Policy Development and Research. Accordingly, this achieves true enterprise capability and demonstrates scalability. The Lender Electronic Assessment Portal (LEAP) application consists of four modules (i.e., Approval, Recertification, Monitoring, and Enforcement) that are in various stages of development and production. Today, LEAP automates what largely has been a manual and paper-intensive process. The LEAP application wholly aimed at improved counterparty (i.e., lender) management, ad-

dresses vestiges of risk and fraud at the front end (or origination) of the loan rather than relying on the current antiquated reviews at the post-endorsement process. The Approval module went live in April 2012 and is successfully processing a continuous volume of lender requests. The Recertification Generation I module is slated for operational capability in the second quarter of fiscal year 2013, with design and development of the other modules in ensuing months, LEAP is projected to achieve full operational capability in the first quarter of fiscal year 2014. In April 2012, FHA staff was given real-time online access to access to borrower and collateral risk analytical tools that have improved the capacity of FHA to capture data that is currently not collected in existing systems. These data profiles help to identify emerging fraudulent trends and practices. Consistent with addressing significant constraints risk and fraud detection, the Loan Review System (LRS), Portfolio Evaluation Tool (PET), and Automated Underwriting System capabilities are slated to achieve operational capability in the first quarter of fiscal year 2014. This complementary set of tools and capabilities effectively provide decision support (and analytics) and every step in the process from loan origination through post-endorsement technical review.

MEETING THE HOUSING NEEDS OF WOMEN VETERANS

Question. In recent years, homelessness among women veterans has increased significantly, posing challenges for the VA. For example, many of the programs that traditionally serve homeless veterans aren't open to families, posing a barrier to homeless women veterans who have children. HUD-VASH has been one tool that has been successful in housing veterans with families, but we need to do more to make sure the needs of women veterans are met.

GAO recently released a report that I requested on meeting the housing needs of women veterans. It recommends that both HUD and VA improve data collection. What steps is HUD taking to obtain better data on homeless women veterans and how are you coordinating these efforts with the VA?

Answer. Beginning in 2013, HUD will begin to identify women veterans as an individual element in its annual sheltered Point-in-Time (PIT) count and biennial unsheltered PIT count of persons experiencing homelessness. These PIT counts are administered by HUD's homeless providers and reported to HUD through our annual Continuum of Care grant competition.

HUD's coordination efforts with the VA include frequent meetings with senior leadership and staff of both agencies under our "Solving Homelessness as One" initiative and conducting "Housing First Boot Camps" with HUD-VASH communities to increase the coordination and performance of participating Public Housing Agencies and VA Medical Centers. The Department is also planning another HUD-VASH Webinar in September 2012, part of HUD's "Ready, Set, Go" training and education series. This joint Webinar will focus on increasing the participation of local Continuum of Care systems in the planning and implementation of the HUD-VASH program.

Female veterans and veterans with families are a particular focus of the Veterans Homeless Prevention Demonstration Program. HUD is currently administering this \$10 million demonstration program at five sites, in collaboration with the Department of Veterans Affairs and the Department of Labor. This program is designed to explore ways HUD can offer early intervention homelessness prevention for veterans. Through this program, HUD is gathering data on veterans, including female veterans, who are assisted. There will also be an evaluation of the demonstration which will examine the effectiveness of efforts to assist female veterans in preventing homelessness.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

CHANGES IN MEDICAL DEDUCTION FOR SECTION 8

Question. One of the proposed section 8 savings measures included in the 2013 budget is a provision which will increase the threshold for the unreimbursed medical deduction from 3 percent of a senior's income to 10 percent of a senior's income. As chairman of the Aging Committee, I am concerned that this policy will have a disproportionate impact on seniors with low incomes and high unreimbursed medical expenses, causing untenable rent increases. Not only do these seniors face paying for medical expenses that are currently reimbursed, but they will also be faced with a substantial monthly rent increase. I am concerned that vulnerable seniors will be forced to choose between paying their rent and buying food, or taking their

medications or obtaining needed medical procedures if the co-payment is too high. What do you estimate the savings to be from this new requirement?

Answer. The figure of \$165 million is the amount of the medical deduction savings.

Question. Will HUD provide a hardship exemption for poor seniors where this change in the medical deduction creates a rent increase that is too onerous?

Answer. The President's budget does not contemplate a hardship exemption. Such an exemption would result in substantial administrative burden for PHAs and owners, and the reduction of administrative burden was an important goal of the proposal. The current deduction does not assist the lowest income seniors, who are eligible for Medicaid and therefore receive no additional subsidy under this provision. The proposal would align HUD assistance policy with the Internal Revenue Code, which allows for deductions for healthcare costs above 10 percent of income but not below that level.

RENTAL ASSISTANCE

Question. While I appreciate HUD's intent to stretch section 202 dollars further and the request funding for new development under the section 202 program, I have a number of concerns and questions about the proposals as described in the budget.

While I support the idea of mixed-income developments, I am concerned that the administration's proposal for rental assistance may be a mix that is infeasible. Rents will simply have to be too high in the non-202 units to cover the cost of debt service. Has HUD done any analysis of the amount of operating costs and/or debt service the requested PRAC amounts will support?

Answer. Section 202 currently only provides on-going subsidy sufficient to cover a project's operating costs absent debt service. However, the Low Income Housing Tax Credit program produces approximately 100,000 affordable units each year. Of these, HUD estimates approximately 40 percent are set aside for elderly only affordable housing. The large majority of these elderly affordable tax credit projects are financed with permanent debt from the properties' net operating income (tax credit restricted rents less operating expenses). Non-section 202 tax credit rents are almost always in excess of operating expenses and therefore sufficient to leverage debt financing. HUD is currently assessing allowing section 202 rents to include debt service as an eligible expense (as it currently does under the section 8 program), such contracts would be capped at fair market rents which in almost all jurisdictions are greater than tax credit-restricted rents.

Question. Do you have any intention of requesting a change in authority so that the Project Rental Assistance or operating assistance that you are requesting (without capital advances) can cover debt service?

Answer. Under existing statutory authority, HUD determines eligible costs allowed under section 202 Project Rental Assistance contracts. However, debt service is not currently an allowable expense under existing administrative rule making, as codified under 24 CFR part 891. HUD is assessing the possibility of providing some limited regulatory relief along those lines.

SECTION 202 PRAC UNITS

Question. A necessary part of successful models of "aging in place" is the role of service coordinator. I am concerned that projects with a limited number of 202 PRAC units are unable to pay for the cost of the required service coordinator. To date, few tax credit or privately financed senior housing developments have been able to afford a service coordinator. The service coordinator should be available to help the entire senior resident population, not only for the PRAC-assisted units. Can you comment on how you intend service coordinators to be supported?

Answer. Tax credit or privately financed senior housing typically serves a more affluent, younger, and healthier elderly population than the section 202 program. These households typically have less service needs and/or have additional resources to directly access services on their own. However, having a service coordinator in place to serve this population is important, particularly as those households age in place. For the last 10 years, the section 202 program has accommodated mixed-finance projects that include some units financed with tax credits and other sources and some units that were financed with section 202 PRAC assistance. Going forward, similar to what HUD has historically allowed under the mixed-finance program, the section 202 units could cover the costs of a part-time service coordinator. Compensation for a full-time service coordinator could be provided either by including a service coordinator line-item as an operating expense on the non-202 units or by relying on funding from local area Agencies on Aging or other local/philanthropic sources.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

IMPACT OF CUTS TO THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AND HOME INVESTMENT PARTNERSHIPS PROGRAM ON RURAL AREAS

Question. Mr. Secretary, on that topic, two of the most effective programs Vermont and rural States around the country have come to rely upon have been the Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships Program. The CDBG Program is one of the most effective Federal programs to revitalize communities with proven results. CDBG helps to fund homeownership assistance, housing rehabilitation, economic development projects and improvements to public services while creating jobs, efforts I know the Department supports. However, the communities that rely on this funding to serve their most vulnerable residents, principally low- and moderate-income persons, have been negatively impacted by recent cuts to the program totaling 28 percent in the last 2 years alone. The CDBG formula allocation has been cut by over \$1 billion since 2000 and the level funding request would keep this allocation at its lowest funding level since 1992. These cuts have left State CDBG programs oversubscribed. During Vermont's most recent grant round, nearly three out of four projects submitted were denied funding. This directly translated to Vermont creating one quarter the number of requested affordable housing units; this translated to the inability of Vermont to create three out of four proposed new jobs; and it left millions of dollars in State, local, and private dollars usually leveraged by the CDBG program on the table.

The HOME program serves as the largest Federal block grant program to State and local governments designed exclusively to produce affordable housing for low-income families. Since Congress created the program it has been the cornerstone in the United States' affordable housing finance system. HOME provides a flexible resource to meet the communities' highest priority affordable housing needs. At a time when States continue to face significant affordable housing shortages, the program has helped produce more than 1 million affordable homes nationally and helps approximately 143,000 families secure affordable housing each year. Funding for the HOME program has also successfully leveraged more than \$88 billion of public and private funds for affordable housing.

Despite recent criticisms of the program, the vast majority of HOME projects are completed successfully, on time and with surprising success given the impact of the current housing and economic crisis. The HOME program has continued to provide much needed funds to local communities for tenant-based rental assistance, rehabilitation of affordable rental and ownership housing, and construction of affordable housing. Additionally, the HOME program provides down-payment assistance to help creditworthy families become homeowners, and housing vouchers to low-income families and those on the brink of homelessness. HOME funds often assist seniors, persons with disabilities, and the homeless in ways which directly respond to local priorities and needs. As the need for affordable housing continues to grow, for many States and local governments HOME is the only reliable funding for affordable and special needs housing development available. Despite the growing need for HOME funds this program faced a 38-percent cut in last year's funding bill.

Mr. Secretary, in your testimony you pointed to the Department's support of the Community Development Block Grant Program and HOME Investments Partnership Program as the primary assistance the administration provides to rural communities. When I look at the overall budget request, one that sustains significant cuts, I see a shift of priorities that heavily favors urban communities over rural ones. I am concerned about what this level of funding would mean for these programs, and particularly concerned about what they mean to rural America. Do you feel the funding request for CDBG and HOME adequately addresses the housing needs of rural communities given the current oversubscription of the programs?

Answer. HUD recognizes that the economic downturn has dramatically impacted rural communities across the country, and the Department remains committed to continuing its investment in rural America. The administration was required to make very difficult decisions during the fiscal year 2013 budget development process, and HUD supports the requested level of funding for CDBG and HOME given the current fiscal situation. The requested levels should not disproportionately impact rural communities. Both the CDBG and HOME programs are formula programs. Consequently, the proportion in distribution of funding between urban and rural areas will remain the same.

The CDBG request will provide more than \$880 million for the State CDBG program in fiscal year 2013. While HUD acknowledges the requested funding level is the same as the request for fiscal year 2012 and results in a \$116 million decrease for States below the fiscal year 2011 appropriated level, it is important to remember

that grantees have a great deal of discretion regarding the development of programs that best meet the needs of their communities. Grantees may have to rethink how they prioritize CDBG funding to have the greatest positive impact, and HUD will continue providing the resources and technical assistance necessary to assist grantees in achieving the highest level of performance and positive outcomes from CDBG allocations.

The HOME request will provide more than \$400 million for State HOME participating jurisdictions in fiscal year 2013. While HUD acknowledges the requested funding level is the same as the fiscal year 2012 appropriation and results in level funding for States and is also 38 percent below the fiscal year 2011 appropriated level, it is important to remember that, like CDBG, State-participating jurisdictions have a great deal of discretion regarding the location of HOME projects that best meet the needs of their rural communities. Just as in CDBG, participating jurisdictions may have to rethink how they prioritize HOME project funding and HUD will continue to provide the resources and technical assistance necessary to assist them.

IMPACT OF CUTS ON RURAL AREAS

Question. What steps is the Department taking to ensure budget cuts do not disproportionately impact rural communities?

Answer. The administration was required to make difficult decisions during the fiscal year 2013 budget process. Despite the subsequent reductions in funding requests for some of HUD's programs, these reductions should not disproportionately impact rural communities. Both the Community Development Block Grant and the HOME Investment Partnerships programs are formula programs. Consequently, the proportion in distribution of funding between urban and rural areas will remain the same, though the actual dollars allocated will be reduced as a result of smaller appropriations.

The Department recognizes the importance of the CDBG program for rural areas and works with grantees to help them carry out successful programs while adhering to the requirements of the Housing and Community Development Act of 1974, as amended. From CDBG program inception to 1981, HUD administered a small cities CDBG program, awarding 20 percent of formula funds on a competitive basis. In 1981, Congress formally established the State CDBG program. This statutory change required 70 percent of CDBG funds allocated by formula go to entitlement jurisdictions, and the other 30 percent go to non-entitled communities (small cities, small towns, and rural areas). This provision, referred to as the 70/30 split, remains in place to date.

By statute, 40 percent of the annual appropriation for HOME is allocated directly to States. In 24 CFR 92.201, the HOME program regulation requires that "Each State participating jurisdiction is responsible for distributing HOME funds throughout the State according to the State's assessment of the geographical distribution of the housing needs within the State, as identified in the State's approved consolidated plan. The State must distribute HOME funds to rural areas in amounts that take into account the non-metropolitan share of the State's total population and objective measures of rural housing need, such as poverty and substandard housing, as set forth in the State's approved consolidated plan. To the extent the need is within the boundaries of a participating unit of general local government, the State and the unit of general local government shall coordinate activities to address that need."

Both of these block grant programs leave the distribution of the grant funds for small cities and rural areas to the individual States. Statutorily, each State has a broad discretion on how to prioritize the use of these funds. HUD continues to offer support to States, small cities, and rural areas that will help them discover areas with the highest level of need.

PROPOSED RULE FOR HOME

Question. Mr. Secretary, I commended the Department's efforts to improve the monitoring of the HOME program following last year's criticism highlighting some unfortunate delays and mismanagement in an otherwise successful and cost-effective program. I am, however, concerned about the Department's proposed regulation to address these criticisms. The proposed HOME Program rules appear to have a disproportionate impact on rural HOME programs despite the fact that rural communities have dependably ranked as some of the most efficient and effective recipients of HOME program funding. I know my home State of Vermont has been awarded two HOME Program Doorknocker Awards and has consistently been ranked first among State-participating jurisdictions over the past 6 years based on their administration of the HOME program. And yet, the proposed regulation would make it

difficult, and in some cases impossible, for rural communities to continue to use HOME funding.

Of particular concern is the change in how Community Housing Development Organizations (CHDOs) are required to demonstrate capacity. The proposed rule would require CHDOs to have paid staff with development experience and will not allow them to rely on consultants to demonstrate capacity. This requirement will undoubtedly negatively impact small rural CHDOs who rely on small staffs and often partnerships with groups in the community with housing development experience.

Additionally, the proposed changes to the set aside requirement changes the definition of "sponsor" in a way that would require the CHDO to be the sole general partner in a limited housing partnership. In Vermont this would be a significant problem as our CHDOs often are partners with Housing Vermont, a Statewide non-profit syndication and development company.

While I understand the intent of the proposed rule, I worry that the rule contains changes could have unintended consequences which could prove to be costly, duplicative or time-consuming especially for participating jurisdictions and States in rural areas with limited staff and resources.

In preparing the proposed regulation how did the Department take into consideration the often unique circumstances facing rural communities using HOME funds and what steps were taken to ensure that this regulation would not negatively impact small rural communities?

Answer. In preparation for the publication of the Proposed HOME Rule, the Office of Affordable Housing conducted "Listening Sessions" with both Statewide and local stakeholders. At the stakeholder meeting held with State agencies on January 14, 2010, HUD asked "Do rural Participating Jurisdictions (PJs) have any particular comments or concerns about the administration of the HOME program?" Several States provided input on the challenges experienced by CHDOs and expressed concern about the lack of capable CHDOs in rural areas. Many States expressed the opinion that most CHDOs could not be expected to undertake complex housing development due to their lack of capacity. Several suggestions addressed ways to provide CHDOs with more funding for operating costs (e.g., salaries for experienced staff), including monitoring fees, and different structures for developer fees. To mitigate some of those concerns, the Department has also made clear in the proposed rule that project-related soft costs can be paid for with HOME funds (e.g., underwriting, market analysis).

In summary, with respect to the performance of CHDOs, and in particular, the performance of CHDOs in rural areas, the Department received input prior to rule-making and public comments on the proposed rule regarding proposed changes to definitions and requirements related to CHDOs. HUD acknowledges the concerns raised by commenters, particularly regarding the effects of some of the provisions on rural areas. HUD has carefully considered these comments in drafting the final rule. The Department will provide technical assistance to PJs and CHDOs to help them meet the new requirements.

Question. Will you commit to working with me and my staff to ensure that when a final rule is published by HUD later this year that accommodations for small, rural States and CHDOs are made?

Answer. The Department has given careful consideration to the comments it received on the proposed rule, including comments regarding the effect of proposed changes on rural areas. The Department is confident that many CHDOs in rural areas will be able to increase their capacity in order to be in compliance with the Final Rule. The Department will offer several different types of technical assistance and examples of best practices that will assist States with rural areas and CHDOs in rural areas to modify their programs and build capacity in order to meet the new requirements of the HOME Final Rule. The new OneCPD Resource Exchange, <https://www.onecpd.info/>, will also provide a forum for CHDOs and States to engage in peer-to-peer assistance.

QUESTION SUBMITTED BY SENATOR SUSAN M. COLLINS

DUPLICATIVE ECONOMIC PROGRAMS

Question. The Government Accountability Office notes in its 2011 follow up report on duplicative economic development programs that HUD, Commerce, SBA, and USDA have made minimal progress collecting data and assessing the effectiveness of their overlapping economic development programs. Further, HUD is the only agency of the four identified to not yet have taken steps to define common outcomes with other Federal agencies. I know that building collaborative relationships is an

important goal of yours. What limits your ability to reach common goals and results with other agencies?

Answer. HUD strongly agrees with the concept of collaboration, and it continues to work with other agencies to ensure that its grants are effective and useful to the communities they are meant to serve.

HUD's core community and economic development program, the Community Development Block Grant program (CDBG), is distinct from programs administered by other agencies in both its objectives and design. It has a statutory requirement that grantees expend in excess of 70 percent of grant funds on activities that benefit low- and moderate-income persons. In addition, the CDBG authorizing language is clear that funding priorities and other decisions are to be made at the State and local levels; the program provides grantees with a high degree of flexibility to respond to local economic conditions with priorities tailored to meet those needs. As a result, many of the program's intended outcomes are unique from those of other Federal economic development programs. This has made it difficult to coordinate goals and results with other agencies. However, CDBG has been a major factor in allowing these other programs to be effective: Grantees regularly leverage CDBG funds with these other Federal grant programs and private resources to achieve common goals.

Despite these differences, HUD, through the Office of Economic Development, has initiated collaborative discussions with several agencies administering economic development programs. These conversations are intended to provide information to HUD grantees to assist them in making strategic investments of block grant and competitive resources. HUD plans to disseminate information gained through these collaborative efforts using the OneCPD Resource Exchange Web site, the Department's new online portal designed to share news, events, resources, and information on all HUD Community Planning and Development programs.

While, due to differences in program objectives and design, HUD may not be able to fully align CDBG with other Federal economic development programs, it does strongly believe that collaboration with other programs can help make sure that it is effective in building strong communities across America.

QUESTIONS SUBMITTED BY SENATOR ROY BLUNT

FHA'S SOLVENCY

Question. As one of the only games in town, the Federal Housing Administration (FHA) continues to have a ballooning portfolio, well above the intended size. As the Administration's white paper proposes various reform options for the Government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, how can the Department of Housing and Urban Development (HUD) ensure that FHA won't become the lender of last resort for home loans should the private market move slowly to fill the space where the GSE once operated?

Answer. FHA plays a counter-cyclical role in the housing market, experiencing higher volume during times of market constriction and lower volumes when there is sufficient access to mortgage capital in the conventional market. Regardless of the market environment, FHA loans are typically 30-year, fixed-rate products and lenders originating these loans must follow FHA guidance in originating and servicing these loans. Since 2009, FHA has made significant changes to credit policy to ensure that future books of business continue to yield positive economic value to the fund. In addition, FHA has adopted a number of measures that hold lenders accountable for their actions, including, among others, rules that require lenders to indemnify FHA on loans found to be materially deficient. FHA is still seeking legislative authority to pursue indemnification and other heightened enforcement authority with respect to all FHA approved lenders. FHA has also enhanced its underwriting guidance and modified its automated mortgage scoring system to require more underwriter oversight of riskier loan applications. Finally, FHA's loss mitigation strategies, already considered among the strongest in the mortgage industry, have been further improved to protect both homeowners as well as FHA. Taken together, these actions are designed to ensure that creditworthy borrowers have a safe and affordable means of obtaining homeownership while at the same time encouraging only responsible lending on the part of FHA's approved mortgage lenders. As the economy continues to recover and FHA's counter-cyclical role becomes less critical, FHA and HUD will work with the broader administration and Congress on efforts to ensure that FHA's role in the market does recede and a stable, sustainable housing market evolves.

Question. The administration's budget once again requests increases in MMI premiums to help strengthen the fund. While I'm encouraged by the increase in liquid-

ity to protect against risk to the solvency of the fund, I question whether the already bloated portfolio will grow in 2013 rather than shrink as your budget assumes. What steps are being taken to encourage private lenders to originate quality, non-FHA insured loans? How can HUD encourage the private market to provide home loans for minorities who disproportionately rely on FHA's Government guarantee?

Answer. In February 2012, HUD announced an increase in both FHA annual and upfront mortgage insurance premiums, effective in April 2012. The decision to adjust FHA premiums for the fourth time since 2009 was made by balancing several factors—FHA's mission of providing access to credit for low wealth, creditworthy borrowers, the health of the Mutual Mortgage Insurance Fund and FHA's long-term role in the Nation's housing finance system. As a result of these premium adjustments, FHA has been able to continue to serve its countercyclical role in the mortgage market—providing access to credit to creditworthy borrowers during this time of market constriction—but has seen overall volume decline. According to Amherst Securities' June 14, 2012, Amherst Mortgage Insight Report, the composition of FHA loans in Ginnie Mae securities has actually declined. This is in large part because these pricing changes have made conventional loans more competitive; high FICO borrowers who may have chosen to take out an FHA-insured loan rather than a loan with private mortgage insurance are now finding the costs of private versus federally backed mortgage insurance more comparable. However, adjusting premiums is only one lever. Currently, FHA is the only federally backed institution able to originate high-priced loans (loans above \$625,500). As a result, borrowers seeking these "jumbo" loans only have one outlet—FHA. In its housing finance reform white paper, the Administration urged Congress to allow the higher loan limits to expire. Unfortunately, in November 2011, Congress elected to extend these limits for FHA while allowing the GSE loan limits to go back to pre-crisis levels. This does create a disincentive to originate non-FHA loans in some markets and so we would once again urge Congress to allow FHA loan limits to step back to the HERA levels.

GOVERNMENT-SPONSORED ENTERPRISES

Question. The future of Fannie Mae and Freddie Mac remain uncertain at this point but I am interested in hearing your views. What are your views about the future of Fannie and Freddie? If Fannie and/or Freddie continue to exist in some form, what are your views on reconciling the conflicting goals of private profits and public good? How important are the mortgage GSEs to carry out Federal housing policy?

Answer. The administration is currently working diligently on a number of inter-agency projects set forth in the white paper that was published in February 2011, including a detailed exploration of the three options for the future of housing finance. Of those three options, the third one does provide considerations around maintaining some Government presence through a model that would serve as a back-stop in the form of reinsurance behind significant layers of private capital at a guarantor level. Below is greater detail on the strengths and weaknesses of this third option. However, to be clear, the administration is still working with a number of stakeholders, including Members of Congress, to fully explore all three.

At the same time, the administration is equally engaged on topics that directly involve the GSEs, such as the development of national servicing standards, a transition plan for the wind down of Fannie Mae and Freddie Mac from their current status and reducing the footprint of the Federal Housing Administration (FHA). It is important to remember that the FHA and GSEs continue to provide an important source of credit availability as Government and industry work collectively to reduce the barriers of uncertainty that block a robust return of private capital. Thus, while the administration supports decreasing the role of FHA, Fannie Mae, and Freddie Mac and re-invigorating the private market, we also believe that any approach must be measured and comprehensive to address the tensions your questions above elicit.

HOMELESSNESS

Question. In your testimony, you say that HUD and the VA have partnered for the past 2 years to make strides in ending veteran homelessness by 2015. While I appreciate the ambitious goal and the collaboration between these two agencies, how will your fiscal year 2013 budget address the significant increase in homelessness for veterans in Missouri?

Answer. HUD is aware that the number of homeless veterans in Missouri has increased from 529 veterans in 2009 to 853 veterans in 2011 and is working hard to end veteran homelessness. Despite the significant current economic challenges, in the fiscal year 2011 Continuum of Care competition, Missouri was awarded \$27,371,596, an increase upon the \$27,357,782 awarded in 2010. In 2012, HUD allotted 100 HUD-VASH vouchers to the State of Missouri, doubling the number of

HUD-VASH vouchers allotted to Missouri and bringing the total number of vouchers to 495 Statewide. HUD will continue to request funding in order to address the significant increase in veteran homelessness in Missouri and elsewhere.

HUD is currently administering the \$10 million Veterans Homeless Prevention Demonstration Program at five sites in collaboration with the Departments of Veterans Affairs and Labor. This is a 3-year demonstration designed to explore ways HUD can offer early intervention homelessness prevention for veterans—primarily veterans returning from the wars in Iraq and Afghanistan. While none of the sites for the demonstration is in Missouri, the lessons learned will be important in addressing the unique needs of these veterans and will support efforts to identify, reach, and assist them to regain and maintain housing stability. An evaluation of the program will also provide HUD with additional information to inform programs addressing means of preventing homelessness among veterans in the future. HUD expects to be able to provide preliminary results which will guide us in policy formation.

Question. How does your budget ensure that those who have received assistance for adequate housing won't become homeless again?

Answer. Performance metrics codified in the Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH Act) of 2009 require communities to be able to track length of homelessness, recidivism rates, and the number of persons experiencing homelessness for the first time. Under the HEARTH Act, additional funding is provided to communities to conduct planning and evaluation, including this performance measurement. HUD's fiscal year 2013 budget includes a request for the funds needed to continue the transition to the McKinney-Vento Homeless Assistance Act, as amended by the HEARTH Act. As communities receive the funds necessary to conduct these critical evaluations they will be able to better ensure that persons who enter the homeless system will be served with the most appropriate interventions to stabilize their housing and foster independent living.

Question. Do you believe that there is enough emphasis placed on prevention and homebuyer education to prevent another crisis?

Answer. In response to the recent economic crisis, the American Recovery and Reinvestment Act (ARRA) was enacted, which included the funding of the Homelessness Prevention and Rapid Re-housing Program (HPRP). Over 75 percent of the assistance provided with the \$1.5 billion allocation was used for homelessness prevention. HUD has used the lessons learned from HPRP in its drafting of the interim regulations for the Emergency Solutions Grant (ESG) program, a McKinney-Vento Homeless Assistance Act program amended by the HEARTH Act of 2009. As of fiscal year 2013, HUD will no longer have HPRP funds available to continue that program—to offset this loss, HUD is emphasizing the funding for the ESG program.

RURAL HOUSING AND DEVELOPMENT

Question. Investing in rural communities is very important to me and my constituents. I realize there are common goals within HUD and USDA in this area and am interested in your views on how the two overlap in this space. The most recent GAO report acknowledges this overlap; however, it remains unclear whether the two agencies will continue to maintain similar but separate housing goals. How can HUD further protect rural America's needs as funding reaches the States and large urban areas?

Answer. In fiscal year 2013, HUD will continue to fund programs that will directly support housing and economic development in rural communities. Small towns and rural communities across America are facing an acute need for more affordable housing, while also searching for sustainable economic development strategies that link rural housing to job centers. Recognizing the unique challenges in these decentralized areas, HUD continues to tailor its programs to provide rural communities with the resources they need to craft innovative solutions. While specific appropriations for programs in rural communities ended in 2011, HUD has continued to partner with rural communities with programs like Community Development Block Grants, HOME Investment Partnerships, and the Housing Choice Voucher Program (HCVP). It also directly supports homeownership in rural areas through FHA insurance for homeowners. HUD's field offices in rural communities continue to provide technical assistance resources and to link to other HUD programs and other Federal agencies. Moreover, HUD is committed to the development of the poorest areas in America, specifically Indian Country. Through programs like the Indian Housing Block Grant, HUD partners with rural American Indian and Alaska Native tribal governments to support efforts to create locally driven solutions to economic development challenges. Below, HUD outlines some of the current pro-

grams rural communities are using to address their housing and community development needs.

COLLABORATIONS WITH OTHER AGENCIES

HUD meets regularly with other agencies involved in housing through an inter-agency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. The Rental Policy Working Group, created by the Domestic Policy Council and consisting of the Departments of Housing and Urban Development, Agriculture, and Treasury, has released proposals that will more efficiently align rental programs across Government agencies, including inspections, financial reporting, appraisals, energy efficiency standards, and fair housing compliance enforcement, among others. This working group has increased collaboration between the rural housing policies of HUD and USDA.

One specific way HUD is working with other agencies is an effort to improve access to capital from private sources in isolated rural areas. The first step in this effort is the Border Community Capital Initiative (“Border Initiative”) is the first step in a collaborative effort among HUD, the Department of the Treasury’s Community Development Financial Institutions Fund (CDFI Fund) and the Department of Agriculture—Rural Development (USDA–RD). The Initiative’s goal is to increase access to capital for affordable housing, business lending and community facilities in the chronically underserved and undercapitalized United States/Mexico border region. Specifically, it will provide direct investment and technical assistance to community development lending and investing institutions that focus on affordable housing, small business and community facilities to benefit the residents of colonias. The United States Code defines a colonia as a community that (1) is in the State of Arizona, California, New Mexico, or Texas; (2) is within 150 miles of the United States-Mexico border, except for any metropolitan area exceeding 1 million people; (3) on the basis of objective criteria, lacks adequate sewage systems and lacks decent, safe, and sanitary housing;

HUD, USDA–RD and the CDFI Fund have all identified lack of capacity among organizations serving the colonias and similar persistent poverty communities as a limiting factor in the effectiveness of Federal programs. Organizations specializing in affordable housing, small business support, and community facilities cannot sustain themselves and grow. The Border Initiative focuses on using each agency’s resources to effectively improve these organizations, empowering them to improve colonias communities. Depending upon the programmatic lessons of the Border Initiative and availability of resources, the agencies hopes to adapt this collaborative approach to improving capital access in other rural regions.

ON-GOING RURAL ASSISTANCE

Beyond targeted efforts to alleviate housing and development issues in rural America, HUD serves families in small towns and rural communities through almost every major program it funds. While many think of HUD programs as mainly for urban communities, HUD supports communities across the country.

- In 2012, the State Community Development Block Grant (CDBG) program provided approximately \$882 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. The State of Missouri received over \$20 million of CDBG funding for rural areas.
- HUD also provided almost \$400 million in rural areas in 2012 for affordable housing and homeownership programs through its HOME Investment Partnership program, directly and indirectly supporting over 5,360 jobs. The State of Missouri received over \$9 million of HOME funding for areas outside of large metropolitan areas.
- Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher Program, Public Housing, and Multifamily programs.
- For homeowners, HUD’s Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately \$545 million in current FHA loans are to rural healthcare facilities designated as “critical access hospitals.” HUD recognizes the unique challenges in these rural areas, and continues to develop innovative, community-based programming to meet those needs.

HOMELESS ASSISTANCE GRANTS

According to HUD's most recent Annual Homeless Assessment Report, the number of people using homeless shelter in suburban and rural areas has increased 57 percent since 2007. Suburban and rural homelessness makes up 36.2 percent of the total homeless population in America. The reason for this increase is unclear. However, with the Federal Government's commitment to the Federal Strategic Plan to End Homelessness, it is crucial that the Department confront this growing problem.

On May 20, 2009, President Obama signed the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, which includes the establishment of the Rural Housing Stability Assistance Program (RHSP) within HUD's Homeless Assistance Grants program. RHSP is designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In 2013, HUD is requesting \$5 million for the Rural Housing Stability Assistance program. These grant funds will be awarded outside of the existing Continuum of Care competition and will introduce activities that have not historically been available through HUD's homeless assistance programs. For example, if someone's house is uninhabitable, RHSP funds can be used to make repairs, preventing that individual from becoming homeless.

In addition to this focused RHSP initiative, rural communities will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant and the Emergency Shelter Grant (ESG) program. Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the State to assist areas not currently in Continuums of Care. In 2012, the State of Missouri received over \$2.5 million to fight homelessness in non-urban areas. In 2011, the Continuum of Care competition included a selection priority for new projects proposing to serve 100 percent rural areas and an additional 41 projects in rural areas received funding, resulting in nearly \$16 million for new projects in rural areas.

AMERICAN INDIAN, ALASKA NATIVE, AND NATIVE HAWAIIAN PROGRAMS

As the single largest sources of funding for housing on Indian tribal lands, HUD initiatives in Indian country continue to provide crucial resources to America's poorest communities. Programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. All together, in fiscal year 2013, HUD is requesting \$731 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities, which will directly and indirectly support over 14,000 jobs.

SUSTAINABLE HOUSING AND COMMUNITIES

Recognizing the strong demand among communities for help in connecting economic development with future infrastructure and housing investments, HUD established the Office of Sustainable Housing and Communities (OSHC) in 2010. Its mission is to both directly assist those communities looking for assistance in planning for sustainable growth and to infuse sustainability into HUD policies and programs. HUD has found that the demand for planning assistance is strong in rural areas as they attempt to plan for a sustainable future. Through partnerships with other Federal agencies to align resources and reduce barriers, HUD has developed the Sustainable Communities Initiative (SCI) to provide incentives to encourage communities of all shapes and sizes to use sustainable planning and development strategies. SCI funding includes special funding categories for smaller communities. In 2011, over 40 percent of the OSHC Community Challenge Grants went to communities with populations below 50,000. In fiscal year 2013, HUD is requesting \$100 million in SCI funding within the Community Development Fund, of which a portion will once again be designated for small- and mid-sized communities.

SUBCOMMITTEE RECESS

Senator MURRAY. This hearing is recessed until Thursday, March 8, at 10 a.m., at which time we will hear testimony from the acting FHA Commissioner, Carol Galante, on the Federal Housing Administration.

[Whereupon, at 10:33 a.m., Thursday, March 1, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 8.]

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2013**

THURSDAY, MARCH 8, 2012

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

The subcommittee met at 10:06 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.
Present: Senators Murray and Collins.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

STATEMENT OF HON. CAROL GALANTE, ACTING FEDERAL HOUSING
ADMINISTRATION COMMISSIONER AND ASSISTANT SECRETARY
FOR HOUSING, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Good morning, and welcome to Acting Federal Housing Administration (FHA) Commissioner Carol Galante. We appreciate your coming today and your testimony. You have assumed this role at a very pivotal time for both the market and FHA. And we really want to thank you for your service and coming today.

Back in early 2007, this subcommittee held a hearing on FHA that raised questions about its role and relevance as its market share had fallen to around 3 percent. At that time, home prices were on a seemingly unstoppable climb, and based on the belief that home prices would continue to rise, credit was flowing freely.

Millions of Americans became homeowners, many through exotic mortgage products that required very little documentation, and included attractive offers like interest-only payments and no down payments. FHA's traditional 30-year fixed mortgage, which required documentation and underwriting, simply could not compete.

But the promises made to homeowners and investors alike were too good to be true. When the risks associated with these mortgages began to materialize, it was far too late. And when defaults and foreclosures skyrocketed, the impact was felt not only by defaulting homeowners, but by entire communities that watched their home values plummet, investors who bet on these products and lost, and older Americans who saw their pensions disappear.

FHA quickly stepped in after the crash to ensure a functioning mortgage market, the primary function for which it was designed during the Great Depression. There is no question that stepping into the faltering housing market exposed FHA to greater risk, but it took on this risk in order to support the broader housing market, and without its support, the cost of the market and to taxpayers today would likely be far higher.

So, today we are not asking about FHA's role and relevance. FHA now supports nearly 30 percent of the purchase market, and almost 16 percent of all loans, including refinances. And its value has been made clear over the past few years. Instead we are now asking how we protect the taxpayer from the risks associated with its increased role in the market, and how and when do we scale back FHA's presence in the market?

FHA's fiscal soundness depends in large part on broader market and economic conditions. As Secretary Donovan testified last week, the biggest factor in the health of FHA's Mutual Mortgage Insurance (MMI) Fund is the direction of home prices. While we are seeing signs that the housing market has hit bottom and is starting its climb back up, risks remain. With over 22 percent of mortgages in the United States underwater, elevated levels of foreclosures, and an extensive shadow inventory of properties, the path of home prices remains uncertain.

I look forward to having this discussion about the potential risks that remain in the market, and what steps can and should be taken to strengthen the market and FHA.

This week, the President announced changes to the FHA's Streamline Refinance Program that will make it easier for existing FHA borrowers to benefit from low interest rates. And in February, the administration released a plan to further aid the market by creating opportunities for homeowners to refinance into more affordable mortgages. It has also pushed for a greater use of principal write-downs.

These proposals offer opportunities to make mortgages more affordable for homeowners, while at the same time putting money back into their pockets, and in some cases, giving them a chance to build equity once again.

These proposals are not written without their own risks and costs. Allowing conventional borrowers to refinance into FHA loans adds risks to FHA, even if not directly to the MMI Fund. Under the administration's proposal, this cost would be covered by a financial crisis responsibility fee paid by banks. In addition to the financial risks, policies such as principal write-downs also raise concerns about moral hazard. In evaluating these proposals, we must have an understanding of what is currently holding the market back from a stronger recovery, and if the long-term benefits of public intervention outweigh the shorter term costs.

The administration is looking at ways also to address the growth in the number of Government-owned properties. FHA along with Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation) own about one-quarter of 1 million foreclosed properties. These properties are costly for the Government to manage and contribute to the decline of home prices.

As we look for ways to address the shadow inventory, millions of Americans are unable to find affordable housing. According to a study released by the Department of Housing and Urban Development (HUD) last year, over 7 million Americans pay more than 50 percent of their income on housing, which represents a 20-percent increase in worst case housing needs between 2007 and 2009.

So, I am glad to see FHA, along with the Federal Housing Finance Agency (FHFA), the conservator of Fannie Mae and Freddie Mac, is looking at converting real estate-owned (REO) properties into rental housing. I am interested in hearing from Acting Commissioner Galante on the interest this proposal has garnered, as well as the challenges and benefits that are associated with it.

While much of FHA's fiscal soundness depends on the overall market, there are measures that FHA can take to improve its financial standing. The administration recently announced premium increases to provide additional funding to the MMI Fund. In addition, the budget also includes proposals to increase premiums for its Multifamily and Healthcare Programs. Similar to its single-family business, FHA's presence in these areas has grown in recent years, and these premiums should help strengthen the General and Special Risk Insurance Fund.

Amid the discussions about solvency of the funds and FHA's future in the market, this subcommittee cannot lose sight of FHA's day-to-day operations, so I will be asking critical questions, including: Does FHA have the appropriate staff to manage its portfolio? Does it have the tools it needs to assess and manage risk? And does it have the means and authority to protect taxpayers from fraudulent lenders and excessive losses?

In recent years, this subcommittee has worked to provide FHA with the resources to increase its hiring, support a new risk office, and invest in much needed technology upgrades. In a constrained budget environment, Federal employees and administrative expenses are often the first items to be cut, but in the long term, costs resulting from weak oversight are bound to outweigh any savings that would result from cutting FHA's workforce.

And as we climb back from this housing crash, we must also remember the lessons learned from the rise and the fall of the housing market. We must have soundly underwritten mortgages and a process that is fair and transparent from the moment a potential homeowner applies for a mortgage, all the way through loss mitigation or foreclosure.

This crisis has also taught us the importance of having a balanced national housing policy, one that includes both rental and homeownership opportunities. At the same time, we must be careful not to over correct, as is happening today, and close the door to homeownership for hardworking, responsible Americans.

PREPARED STATEMENT

I believe we should continue to strive for a market in which Americans who work hard, provide for their families, and pay their bills have an opportunity to own a home. And I think FHA will continue to be a part of that vision.

So, I look forward to hearing from Mrs. Galante.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

Good morning, I want to welcome Acting Federal Housing Administration (FHA) Commissioner Carol Galante to the subcommittee today to talk about FHA. Ms. Galante, you have assumed this role at a pivotal time both for the market and FHA and I want to thank you for your service.

FHA'S ROLE IN SUPPORTING THE MARKET

Back in early 2007, this subcommittee held a hearing on FHA that raised questions about its role and relevance, as its market share had fallen to around 3 percent. At that time, home prices were on a seemingly unstoppable climb. And based on the belief that home prices would continue to rise, credit flowed freely.

Millions of Americans became homeowners—many through exotic mortgage products that required little documentation, and included attractive offers like interest-only payments and no down payment. FHA's traditional 30-year fixed mortgage, which required documentation and underwriting, simply could not compete.

But the promises made—to homeowners and investors alike—were too good to be true. When the risks associated with these mortgages began to materialize, it was far too late. And when defaults and foreclosures skyrocketed, the impact was felt not only by defaulting homeowners, but also by entire communities that watched their home values plummet, investors who bet on these products and lost, and older Americans who saw their pensions disappear.

FHA quickly stepped in after the crash to ensure a functioning mortgage market, the primary function for which it was designed during the Great Depression.

There is no question that stepping into the faltering housing market exposed FHA to greater risk. But it took on this risk in order to support the broader housing market, and without its support, the cost to the market and to taxpayers today would likely be far higher.

So, today, we are not asking about FHA's role and relevance. FHA now supports nearly 30 percent of the purchase market and almost 16 percent of all loans, including refinances. And its value has been made clear over the past few years. Instead, we are now asking: How we protect the taxpayer from the risks associated with its increased role in the market, and how and when do we scale back FHA's presence in the market?

FISCAL SOUNDNESS OF FHA'S MUTUAL MORTGAGE INSURANCE FUND

FHA's fiscal soundness depends in large part on broader market and economic conditions. As Secretary Donovan testified to last week, the biggest factor in the health of FHA's Mutual Mortgage Insurance (MMI) Fund is the direction of home prices.

While we are seeing signs that the housing market has hit bottom and is starting its climb back up, risks remain. With over 22 percent of mortgages in the United States underwater, elevated levels of foreclosures, and an extensive shadow inventory of properties, the path of home prices remains uncertain.

I look forward to having a discussion about the potential risks that remain in the market, and what steps can and should be taken to strengthen the market and FHA.

NEW PROPOSALS TO AID THE MARKET

This week, the President announced changes to the FHA Streamline Refinance Program that will make it easier for existing FHA borrowers to benefit from low interest rates.

And in February, the administration released a plan to further aid the market by creating opportunities for homeowners to refinance into more affordable mortgages. It has also pushed for greater use of principal write-downs.

These proposals offer opportunities to make mortgages more affordable for homeowners while, at the same time, putting money back into their pockets and in some cases giving them a chance to build equity once again.

These proposals aren't without their own risks and costs. Allowing conventional borrowers to refinance into FHA loans adds risk to FHA—even if not directly to the MMI Fund. Under the administration's proposal, this cost would be covered by a Financial Crisis Responsibility fee paid by banks.

In addition to the financial risks, policies such as principal write-downs also raise concerns about moral hazard. In evaluating these proposals, we must have an understanding of what is currently holding the market back from a stronger recovery, and if the long-term benefits of public intervention outweigh the short-term costs.

The administration is also looking at ways to address the growth in the number of Government-owned properties. FHA, along with Fannie Mae and Freddie Mac, own about a quarter of a million foreclosed properties. These properties are costly for the Government to manage and contribute to the decline of home prices.

As we look for ways to address the shadow inventory, millions of Americans are unable to find affordable housing. According to a study released by HUD last year, over 7 million Americans pay more than 50 percent of their income on housing, which represents a 20-percent increase in worst case housing needs between 2007 and 2009.

So, I am glad to see that FHA, along with the Federal Housing Finance Agency, the conservator of Fannie Mae and Freddie Mac, is looking at converting real estate-owned (REO) properties into rental housing.

I am interested in hearing from Acting Commissioner Galante on the interest this proposal has garnered, as well as the challenges and benefits associated with it.

SUPPORT FOR FHA OPERATIONS

While much of FHA's fiscal soundness depends on the overall market, there are measures that FHA can take to improve its financial standing.

The administration recently announced premium increases to provide additional funding to the Mutual Mortgage Insurance Fund.

In addition, the budget also includes proposals to increase premiums for its multi-family and healthcare programs.

Similar to its single-family business, FHA's presence in these areas has grown in recent years, and these premiums should help strengthen the General and Special Risk Insurance Fund.

Amid the discussions about solvency of the funds and FHA's future in the market, this committee cannot lose sight of FHA's day-to-day operations. So, I will be asking critical questions, including: Does FHA have the appropriate staff to manage its portfolio? Does it have the tools it needs to assess and manage risk? And does it have the means and authority to protect taxpayers from fraudulent lenders and excessive losses?

In recent years, this committee has worked to provide FHA with the resources to increase its hiring; support a new Risk Office; and invest in much-needed technology upgrades.

In a constrained budget environment, Federal employees and administrative expenses are often the first items to be cut, but in the long term, costs resulting from weak oversight are bound to outweigh any savings that would result from cutting FHA's workforce.

CLOSING

And as we climb back from the housing crash, we must also remember the lessons learned from the rise and fall of the housing market.

We must have soundly underwritten mortgages and a process that is fair and transparent from the moment a potential homeowner applies for a mortgage all the way through loss mitigation or foreclosure.

This crisis has also taught us the importance of having a balanced national housing policy—one that includes both rental and homeownership opportunities.

At the same time, we must be careful not to overcorrect—as is happening today—and close the door to homeownership for hardworking, responsible Americans.

I believe that we should continue to strive for a market in which Americans who work hard, provide for their families, and pay their bills, have an opportunity to own a home.

And I think that FHA will continue to be part of that vision.

I look forward hearing from Ms. Galante and with that I turn it over to Senator Collins.

Senator MURRAY. And with that, I turn it over to Senator Collins for her opening statement.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you very much, Madam Chairwoman. And thank you for holding this hearing on FHA and the future of the housing finance market. I join you in welcoming Acting Commissioner Carol Galante before our subcommittee this morning.

I want to begin my remarks by commending the administration's new protections for our Active Duty military servicemembers and veterans based on the recent settlement with the Nation's largest banks. It is appalling to think that lenders were taking advantage of the very people protecting our Nation. While not every lender was culpable, obviously, the fact that any of them were doing this is totally unacceptable.

While the administration has made several announcements regarding existing housing programs, the administration has yet to present a comprehensive plan to stabilize the housing market and to reinvigorate private sector participation.

HUD faces many challenges in balancing the goal of strengthening responsible homeownership while minimizing the financial risk to the FHA and, thus, the taxpayers. Ultimately, FHA should play a more limited role in the mortgage market and help encourage the private sector to reassert its primacy.

Since its inception, FHA has provided mortgage insurance for more than 39 million single-family home mortgages, and 53,000 multifamily mortgages. This program finances nearly 30 percent of home purchase loans and about 10 percent of refinance loans nationwide.

FHA continues to partner with current and prospective homeowners during these difficult economic times. In addition to helping FHA program participants refinance to take advantage of lower interest rates, FHA also assists non-FHA homeowners in refinancing untenable mortgages. When financially sound, FHA is an essential component of the recovery of the housing market.

The weakening of our housing sector over the past several years has had a tremendously negative impact on far too many families and communities throughout the Nation. The housing market recession is not yet over, and a sustained recovery is still uncertain. The Federal Reserve recently reported that on average, national housing prices had fallen 33 percent from their peak in 2006. Underscoring the Federal Reserve's view that housing prices remain under pressure, Standard & Poor's Case-Shiller Index for U.S. home prices is down 4 percent from last year. This is particularly troubling since FHA currently insures over \$1 trillion in mortgages.

The agency's role has dramatically expanded since the beginning of the housing crisis. Prior to the crisis, FHA accounted for less than 4 percent of the single-family housing market. HUD now estimates that FHA accounts for nearly 16 percent of the overall market share.

It is also troubling that for the third consecutive year, FHA has not met its statutory requirement of maintaining a 2-percent capital reserve ratio. Further, the budget indicates that FHA could have required as much as \$688 million from the Treasury in order to remain solvent. Fortunately, it has, in essence, been bailed out by the recent foreclosure settlement agreement.

PREPARED STATEMENT

These are not easy issues to resolve, but they are critically important to our Nation's long-term economic health, and to the housing needs of many American families. I remain concerned that we

must reform our present housing finance programs, but in doing so, we must remain ever mindful to limit the taxpayer's exposure to additional financial losses.

Thank you, Madam Chairman.
[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Chairman Murray, thank you for holding this important hearing on the Federal Housing Administration (FHA) and the future of the housing finance market. I join you in welcoming Acting Commissioner Carol Galante before our subcommittee this morning.

I want to start by commending the Administration's new protections for our active military servicemembers and veterans based on the recent settlement with the Nation's largest banks. It is appalling to think that lenders were taking advantage of the very people protecting our Nation.

While the Administration has made several announcements regarding existing housing programs, they have yet to present a comprehensive plan to stabilize the housing market and reinvigorate private sector participation.

The Department of Housing and Urban Development (HUD) faces many challenges in balancing the goal of strengthening responsible homeownership while minimizing the financial risk to FHA and the taxpayer. Ultimately, FHA should play a more limited role in the mortgage market and help encourage the private sector to reassert its primacy.

Since its inception, FHA has provided mortgage insurance for more than 39 million single-family home mortgages and 53,000 multifamily mortgages. The program finances nearly 30 percent of home purchase loans and about 10 percent of refinance loans nationwide.

FHA continues to partner with current and prospective homeowners during these difficult economic times. In addition to helping FHA program participants refinance at lower interest rates, FHA also assists non-FHA homeowners in refinancing untenable mortgages. A financially sound FHA is an essential component in the recovery of the housing market.

The weakening of our housing sector over the past several years has had a tremendous impact on families and communities throughout the Nation. The housing market recession is not yet over, and a sustained recovery is still uncertain. The Federal Reserve recently reported that on average national housing prices have fallen 33 percent from their 2006 peak. Underscoring the Federal Reserve's view that housing prices remain under pressure, Standard & Poor's Case-Shiller index for U.S. home prices is down 4 percent from last year.

This is particularly concerning since FHA currently insures over \$1 trillion in mortgages. The agency's role has dramatically expanded since the beginning of the housing crisis. Prior to the crisis, FHA accounted for less than 4 percent of the single family housing market; HUD now estimates that FHA accounts for nearly 16 percent of the overall market share.

It is troubling that for the third consecutive year, FHA has not met its statutory requirement of maintaining a 2-percent capital reserve ratio. Further, the budget indicates FHA could have required as much as \$688 million from Treasury in order to remain solvent, had it not been bailed out by the recent foreclosure settlement agreement.

These are not easy issues to resolve, but they are critically important to our Nation's long-term economic health. I remain concerned that we must reform our present housing finance programs. In doing so, we must remain mindful to limit taxpayers' exposure to additional financial losses.

I look forward to working with you on these important issues.
Thank you.

Senator MURRAY. Thank you very much. With that, we will turn to you for your opening statement, and appreciate your being here again today. Thank you.

SUMMARY STATEMENT OF HON. CAROL GALANTE

Ms. GALANTE. Thank you, Chairman Murray and Ranking Member Collins, for the opportunity to testify on the fiscal year 2013 budget request for the Federal Housing Administration. Encom-

passing HUD's Single Family, Multifamily, and Healthcare Financing Programs, as well as HUD's Housing Counseling Program, our office is critical to ensuring more Americans have the opportunity to realize or maintain the economic security of the middle class.

And the work this administration has done is going a long way to create an economy built to last. Three years ago, with the housing market collapsing and private capital in retreat, we took decisive action to address the crisis and lay the groundwork for recovery.

FEDERAL HOUSING ADMINISTRATION REFORM

Since the start of this administration, FHA has helped nearly 2.8 million families buy a home, and over 1.7 million homeowners refinance into stable, affordable loans. And with your help, we have taken the most significant steps in FHA's history to reduce risk to the taxpayer and reform FHA practices. We have ensured that FHA has the flexibility necessary to price its products appropriately for current risks and market conditions, and we have transformed FHA's risk management system to better align with the needs and realities of the 21st century mortgage market. These reforms have contributed to the most profitable books of business in FHA's 78-year history.

Still, FHA continues to be strained by loans originated before this administration took office. That is why we continue to take action to strengthen FHA's MMI Fund. Our budget reflects the implementation of the 10-basis-point increase to FHA's single-family annual mortgage insurance premiums, as well as an additional 25-basis-point increase to annual premiums for jumbo loans. With these changes, FHA is projected to add \$8.1 billion in receipts to the Capital Reserve account in 2013.

In addition, in the past week, FHA has announced two premium changes: An increase in our up-front mortgage insurance premium by 75 basis points, and an adjustment in premiums for Streamline Refinance loans. FHA's Streamline Refinance allows current FHA borrowers who are current on their mortgages to refinance their homes, which at today's low interest rates, can result in \$3,000 in annual savings for the typical borrower and bolster their ongoing ability to pay, thereby lowering their risk to FHA.

Those changes to our premiums not included in the budget are expected to produce an additional \$1 billion in budget receipts this fiscal year and next, above what is already projected in the President's budget.

We also continue to take significant steps to strengthen accountability for FHA lenders, including the recent servicing and origination settlements with some of the Nation's largest mortgage lenders, which will provide FHA with over \$900 million to compensate for losses resulting from their serious violations of FHA requirements by these lenders. And we are seeking expanded authority via legislation that will further enable us to protect the MMI Fund.

While FHA will continue to play an important role in supporting the housing recovery in the year ahead, we are committed to reducing the Government's footprint over time. With FHA's loan volume already down 34 percent from its peak in 2009, and our market share declining to its current level of 15.6 percent, we have set the

stage for private capital to return, while ensuring that FHA remains a vital source of financing for underserved borrowers and communities.

While additional risks clearly remain for FHA as the economy continues to recover, the significant reforms and strong enforcement efforts undertaken by this administration are yielding sound and profitable businesses, positioning FHA well for the future.

Despite FHA's important work throughout the crisis, there remain sectors of the housing finance market where additional liquidity is still needed. One of those areas is in small building finance for rental homes. Nearly one-third of the Nation's renters live in small properties of 5 to 49 units, but these properties are at risk of disinvestment because they can be expensive to finance. That is why, as part of the President's budget, HUD is seeking authority to facilitate lending to small multifamily properties through minor changes to our Risk Share Program, and we look forward to working with Congress on this initiative.

HOUSING COUNSELING

Critical to ensuring success of much of FHA's work is housing counseling, and we are making significant improvements to HUD's program. Not only did we get our NOFA (Notice of Funding Availability) on the street within days of the fiscal year 2012 budget passage, but we plan to announce grant awards next week.

And we are also well on our way to setting up a new Office of Housing Counseling. In recognition of the hard work of housing counselors last week, the White House and HUD honored them in a Champion of Change Award. I was honored to participate in this event and meet with people who are tackling this Nation's issues head on.

Finally, as we look to make all of our programs more efficient and effective, the FHA Transformation Initiative will enable us to replace outdated systems with modern technology. These efforts will allow FHA to better assess risk, monitor market trends, and ensure that FHA programs are available for a long time to come.

PREPARED STATEMENT

And so, Madam Chair, this budget reflects this administration's belief that the recovery of our housing market is essential to the restoration of our economy by targeting resources where they are most needed, while ensuring the protection of taxpayer interests. HUD's Office of Housing is doing its part to create housing and communities built to last.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. CAROL GALANTE

Chairman Murray, Ranking Member Collins, and members of the subcommittee, thank you for the opportunity to testify today regarding the fiscal year 2013 budget request for the Federal Housing Administration (FHA).

When this administration took office, the economy was on the brink. Only weeks before this administration took office, the Nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low and dramatic steps were taken to prevent a complete financial meltdown. Today, an econ-

omy that was shrinking is growing again—and instead of rapid job loss, more than 3.7 million new private sector jobs have been created in the last 23 months, and national unemployment has fallen to a near 3-year low.

And, because the Obama administration moved to keep interest rates low and restore confidence in the housing market more than 13 million homeowners have refinanced their mortgages since April 2009—putting nearly \$22 billion a year in real savings into the hands of American families and into our economy. As financing options tightened for millions of Americans due to uncertainties in the credit markets, the Federal Housing Administration played a critical role in returning stability to the housing market by providing access to credit to the millions of families seeking to purchase a home during the worst housing market in generations. This countercyclical role is part of FHA's core mission, and it remains vital as we take further steps to strengthen the housing market.

Today, because we provided a range of solutions to responsible families fighting to hold on to their homes, more than 5.6 million families have been able to reduce their payments and modify their loans to more sustainable terms and foreclosure notices are down nearly 50 percent since early 2009. The resources we provided for communities struggling with concentrated foreclosures have enabled them to fund better uses for almost 100,000 vacant and abandoned properties through our Neighborhood Stabilization Program. Most important of all, because of our commitment to economic growth and recovery, our economy has added private sector jobs for 23 straight months, totaling 3.7 million jobs.

But we know there's still more work to do to ensure that America can create an economy built to last. The fiscal year 2013 budget for the Department of Housing and Urban Development (HUD) tackles these challenges head on. And, as part of HUD's efforts, FHA is continuing its efforts to help responsible families at risk of losing their homes and providing quality affordable rental housing to some of our Nation's most vulnerable families. The President's fiscal year 2013 budget also reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over \$907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. Indeed, the overall HUD budget makes tough choices in order to contribute to deficit reduction in a substantial way.

The HUD budget provides \$44.8 billion for HUD programs, an increase of \$1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (i.e., gross budget authority) is offset by \$9.4 billion in projected FHA and Ginnie Mae receipts, leaving net budget authority of \$35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of \$38.2 billion. Today, I would like to discuss FHA's contributions to the HUD budget and the overall housing market with you in more detail.

RESPONDING TO THE MARKET DISRUPTION

This administration entered office confronting the worst economic crisis since the Great Depression—as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on, leaving American homeowners with the tab. And, while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our Nation's housing market.

HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. The Federal Housing Administration and Government National Mortgage Association (GNMA) continue to have a significant impact on the Nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. FHA has stepped up to face these unprecedented challenges, playing an important countercyclical role in the housing market today.

Three years ago, as credit markets froze, FHA remained one of the few vehicles available for homeowners to obtain financing through purchase and refinance loans. As a result, FHA's market share grew. This increase in volume reinforced the need for FHA to strengthen credit policy and risk management practices and make lenders accountable. FHA has also taken steps to adjust its premium structure and improve recoveries on its Real Estate Owned (REO) portfolio. These efforts combined are intended to ensure that the Mutual Mortgage Insurance Fund (MMIF) has sufficient resources to account for its growth, while also supporting the housing market. And as a result of these efforts, the books of business originated since this adminis-

tration took office reflect higher credit quality than FHA historical averages. Yet, we know that there is much work to be done.

While the number of homeowners at risk of losing their home is down significantly, there are still too many families that face hardships and are underwater, and unaffordable monthly payments put them at an increased risk of default, dragging down markets, reducing labor mobility and consumer spending alike. That is why FHA is also taking steps to ease the process whereby FHA borrowers can refinance into new FHA insured loans and take advantage of today's low interest rates, and will work with Congress and other stakeholders to allow non-GSE homeowners who are underwater to refinance into a separate FHA refinance program.

And in areas where the housing crisis has hit the hardest, foreclosures, large volumes of vacant properties, and resultant blight and abandonment, continue to drag down property values and destabilize communities. That is why FHA is working with its Federal partners at Treasury and the Federal Housing Finance Agency to develop programs to convert REO properties to rental properties. By reducing vacancy rates and lowering the overhang of foreclosed properties, this initiative has the potential to stabilize both house prices and neighborhoods, contributing to a more rapid recovery for communities struggling to emerge from the recent recession.

Overall, the efforts of FHA have been integral in providing liquidity in a time of market constriction, keeping people in their homes and addressing the shadow inventory.

OVERVIEW OF THE FHA FISCAL YEAR 2013 BUDGET

FHA has insured over 40 million mortgages through its Single Family, Multifamily and Healthcare programs since its inception in 1934. In exchange for adherence to strict underwriting, application and servicing requirements established by HUD and the payment of mortgage insurance premiums, FHA-approved lenders are able to file a claim with the FHA if a borrower defaults on their mortgage loan.

FHA, directly and through its partners in the housing counseling industry, has played a key role in mitigating the effect of economic downturns in the real estate market. Due to FHA's traditional countercyclical role, the volume of FHA insured loan products increased substantially beginning in 2009 and, while FHA loan volumes have decreased since that peak, the pressures on FHA and its borrowers have also increased due to the economic downturn.

In fiscal year 2013, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund (MMIF), which will provide an estimated 0.8 million single-family mortgages, and \$25 billion in loan guarantee authority for the General and Special Risk Insurance Fund (GI-SRI), which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities.

The need for this investment is clear as FHA has played a critical role in stabilizing the Nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital continued to flow. However, FHA's expanded role is and should be temporary and, to that end, FHA is taking steps in all of its business lines to encourage the return of private capital into the mortgage market while balancing the need to remain a supportive mechanism for all types of housing moving forward.

FHA Multifamily and Healthcare Mortgage Insurance Programs

FHA Multifamily and Healthcare Mortgage Insurance Programs operate under FHA's GI-SRI Fund. These programs encourage critical mortgage financing opportunities that strengthen communities by addressing specialized financing needs including insurance for loans to develop, rehabilitate, and refinance multifamily rental housing, nursing home facilities and hospitals.

FHA has steadily provided liquidity in the market during times of economic constriction. Combined with historically low interest rates, FHA has seen exponential growth in this area. Commitments for FHA insured multifamily housing and healthcare facilities rose from \$4.3 billion in fiscal year 2008 to \$17.5 billion in 2011. FHA's multifamily and healthcare programs have helped private lenders fill the gap left with the shrinkage of the conventional finance resources. And while this market seems to be rebounding, we continue to expect high levels of mortgage insurance activity for the remainder of fiscal year 2012 and through fiscal year 2013, albeit below the peak in 2011. As of September 2011, the FHA's portfolio of multifamily and healthcare loan guarantees had an unpaid principal balance of \$76.4 billion on 12,666 loans and counting.

Given this unprecedented increase in the number and dollar volume of loans insured under GI-SRI, the fiscal year 2013 budget also includes premium increases

for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes, the first premium increase in 10 years for these programs, are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases range from 5 basis points for 223(a)(7) refinancing to 20 basis points for 221(d)(4) new construction or rehabilitation activity. Premiums for affordable housing projects (such as those with HUD rental subsidies and low-income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to encourage the return of private capital while, at the same time, continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities—the Multifamily annual book of business is five times greater than it was just 3 years ago, and the risk profile has changed dramatically. FHA's multifamily apartment portfolio is now more than 50 percent market rate by unit count and 70 percent by unpaid principal balance (UPB), which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average timeframes and will need to be managed prudently. FHA will publish the proposed increased in the Federal Register in the next 30–60 days and welcomes feedback during the comment period.

During this period of increased activity, FHA has also taken steps to reduce the processing time of loan applications. The Office of Multifamily Housing has centralized processing of Section 223(a)(7) loans to the Office of Affordable Housing Preservation which allows Multifamily Field Office staff to work on the increasingly complex transactions in their pipeline. Additionally, Multifamily Housing and Healthcare have initiated a queue and early warning screening system in order to more efficiently manage workload and provide greater transparency to lenders and borrowers regarding the status of their loan applications. Finally, FHA is conducting monthly performance dialogues with field staff to discuss progress toward meeting processing goals and identify proactive solutions to address performance deficiencies in order to ensure that every effort is taken to reduce processing times and get funds into communities.

This process is already producing results. Survey results demonstrate that staff morale has improved significantly in the offices participating in the pilot roll out of this new process. HUD staff feel encouraged to come up with new and better ways of doing things and these offices are processing applications for multifamily insurance more efficiently and effectively. Offices that had a large backlog of applications have begun to methodically clear out older applications. For instance, our Denver office went from having 30 applications that were older than 90 days in their pipeline to having only 24 overdue applications. In Chicago, 100 percent of the 223(a)(7) loans were processed in less than 30 days and 50 percent of its 223(f) transactions in less than 45 days in January.

In addition, as part of the efforts of FHA's Multifamily and Healthcare programs to strengthen communities by addressing specialized financing needs, HUD is seeking authorization to extend support for Critical Access Hospitals and Small Multifamily Buildings (5–50 units).

We are appreciative of the Congress' longstanding support for Critical Access Hospitals by amending section 242 to permit these important facilities to be eligible for FHA insurance. The most recent amendment to the statute expired on July 31, 2011, and without action to once again to extend the authority under section 242 to allow these hospitals to be eligible, no additional Critical Access Hospitals will be endorsed for FHA insurance. We are grateful to the bipartisan group of Senators that has co-sponsored S. 1431, which would provide this important extension for 5 additional years and we hope that the House (where H.R. 2573 would also extend the critical access authority) and Senate will pass this language this year.

Additionally, as part of the fiscal year 2013 budget, HUD is seeking authority to facilitate lending to small multifamily properties which are an important provider of affordable, but unsubsidized, housing for low- and moderate-income families. According to the 2010 American Community Survey, nearly one-third of renters live in 5- to 50-unit buildings. These buildings also tend to have lower median rents than do larger properties: \$400 per month for 5–49 unit properties as compared to \$549 per month for properties with 50 or more units. Because they are expensive to finance, particularly in this environment, these properties are at risk of divestment. We look forward to working with Congress to ensure the availability of these unsubsidized, affordable housing units.

The efforts of FHA's Multifamily and Healthcare programs are essential in achieving the Department's mission of strong, sustainable, inclusive communities and quality, affordable housing and services for all Americans.

FHA Single Family Mortgage Insurance Program

The MMIF is the largest fund covering activities of FHA, and is used to pay the claims associated with FHA insured single family mortgage loans. Since 1934, mortgage insurance provided by FHA has made financing available to neighborhoods and geographic areas facing economic uncertainty and to individuals and families not adequately served by the conventional mortgage market. Over 30 percent of all FHA-insured homebuyers are minorities, with 60 percent of all African American and Hispanic homebuyers relying on FHA insured mortgage financing to purchase their homes. In the last year, over half of all African Americans and 45 percent of Hispanics who purchased a home did so with FHA-insured mortgage products. In addition, 75 percent of first-time homebuyers use FHA insured financing.

The fiscal year 2013 budget request will enable FHA to continue its mission of providing access to mortgages for low- and moderate-income families and to play an important countercyclical role in the stabilization and recovery of the Nation's housing market. By facilitating the availability of credit through a variety of FHA-approved lenders, including community banks and credit unions, FHA has helped over 2 million families buy a home since President Obama took office.

Due to reduced liquidity in the conventional mortgage market, FHA saw a surge in activity, reaching a peak in 2009. However, FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, thereby laying the ground work for private capital to return to the single family market. Today, FHA's total market share is 15.6 percent, down from 17 percent in 2010 and over 21 percent in 2009.

Strengthening FHA Mutual Mortgage Insurance Fund and Paving the Way for Private Capital To Return

While FHA's portfolio has grown in recent years, the fund has also experienced significant losses. The books of business in the few years before 2009 have largely driven the high number of claims to the MMIF. This was driven by overall economic and unemployment trends as well as by the combined effects of, unscrupulous and non-compliant practices on the part of lenders, and a seller-funded downpayment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this administration have severely impacted the health of FHA's MMIF. But thanks to our efforts since taking office, I can say that the long-term outlook for FHA and the MMIF are now much better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long-term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any administration in FHA history. Indeed, the gains FHA has experienced since 2009 are the result of systematic tightening of risk controls, increased premiums to stabilize near-term finances, and expanded usage of loss mitigation workout assistance to help homeowners avoid foreclosure, stricter lender enforcement, and improved recovery strategies for FHA's REO portfolio.

And, we continue to take steps to further strengthen the fund. In the 2013 budget we announced a 10-bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35 bps. And just last week, we announced a 75-bps increase in FHA's upfront mortgage insurance premium that will further increase receipts to FHA by over \$1 billion in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission, while having minimal impact on consumers.

In addition, we have also taken significant additional steps to increase accountability for FHA lenders. Via a final rule which took effect on February 24, 2012, we clarified the basis upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid foundation for requiring indemnification by lenders for violations of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements. Specifically, FHA is pursuing authority to hold our Direct Endorsement (DE) lend-

ers to the same standards as our Lender Insurance (LI) lenders by instituting required lender indemnification for DE lenders who do not following FHA requirements. Current FHA only has this authority for LI lenders. Additionally, FHA is seeking authority to take enforcement actions against all lenders on a broader, geographic basis rather than just at the branch level. This authority would allow FHA to address systematic risk to the MMIF.

Recently, we announced another step to hold lenders accountable for their actions via the settlements with some of America's largest lenders. Through these settlements, FHA will receive over \$900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: The Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio as of the end of the current fiscal year; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the fund's capital reserve ratio has been below that 2-percent level.

The President's budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This estimate is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. The 2013 budget estimate for the FHA Capital Reserve account does not include the almost \$1 billion of added revenue over the remainder of fiscal year 2012 and fiscal year 2013 from the additional premium increases announced this week or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all future projected losses, as long as economic conditions do not significantly worsen. Moreover, the budget estimates that FHA will add an additional \$8 billion to the MMI Capital Reserve account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

Office of Housing Counseling

HUD's Housing Counseling Assistance program was developed over 40 years ago at a time of severe divestment in housing, unaffordable interest rates, high unemployment, and irresponsible lending practices. Over time, this program has evolved in depth and complexity, as have the issues that it has had to address. Today, housing counseling is more critical than ever as homeowners seek assistance to navigate the many hurdles associated with obtaining a modification. We know that but for the work of counselors, many homeowners wouldn't have received assistance at all and would likely have lost their home to foreclosure. And it is critical for the many first-time homebuyers looking to secure financing in a market where credit and underwriting standards have dramatically tightened. Housing counseling also assists renters to budget, save, repair their credit, avoid scams, and access unbiased information about housing and financial choices. Last year, HUD housing counseling grants resulted in direct assistance to approximately 186,000 households and leveraged additional non-Federal funding so that HUD-approved housing counseling agencies could educate and counsel nearly 2 million American households last year.

It is tragic that public and private support for housing counseling has been shrinking at a time of great need. We hear anecdotally that housing counseling agencies are laying off skilled, trained housing counselors as traditional sources of funding such as charitable contributions from financial institutions has diminished. Yet recent studies confirm the value of HUD-approved housing counseling. Research evidence documents the role of housing counseling in reducing mortgage delinquency and foreclosure, on helping first-time buyers access and sustain homeownership, and on the special role of counseling related to HECM reverse mortgages. Most studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent, although one study reported no impact.

HUD-approved housing counseling is also effective in the context of mortgage delinquency and default. A nationwide Urban Institute study by Mayer, et al., (2010) of the foreclosure mitigation counseling program (which uses the HUD housing counseling program infrastructure as a base) found that borrowers in foreclosure were 70 percent more likely to get up-to-date on payments if they received the counseling. The same Urban Institute study showed that homeowners who received a mortgage modification to resolve a serious delinquency were 45 percent more likely to sustain that modification if it was obtained with the help of counseling.

Today, HUD approves, monitors, and supports more than 2,600 counseling organizations. Through the new Office of Housing Counseling, HUD will support a network of agencies and counselors, trained and certified to provide tools to current and prospective homeowners and renters so that they can make responsible choices to address their housing needs in light of their financial situation. Further, the Office of Housing Counseling will work to make this network accessible throughout the country to those who need objective and reliable information in order to make sound housing and budget decisions, especially those with low to moderate incomes or otherwise underserved, or those at risk of housing loss or homelessness.

For fiscal year 2013, HUD requests \$55 million for the Housing Counseling Assistance Program which is expected to inform over 186,000 households about their housing choices in the areas of purchase or refinancing of their home; rental housing options; reverse mortgages for seniors as part of required Home Equity Conversion Mortgage (HECM) counseling; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation. These funds will also be used to launch the Office of Housing Counseling which was created as part of the Dodd-Frank Wall Street Reform Act.

The majority of the funds requested in the budget, nearly \$45.5 million, are expected to be distributed competitively to support direct provision of a holistic range of services that are appropriate for local market conditions and individual needs. An additional \$6 million will be used to strengthen the quality of housing counseling through training grants which will ensure that individual counselors and organizations develop the knowledge and capacity to meet the new certification requirements which HUD must implement under Dodd-Frank. The remaining \$3.5 million will be used for administrative contracts and support geared towards streamlining internal HUD processes and enhancing oversight.

Last fiscal year, Congress appropriated \$45 million for this program. I am proud to tell you that we expect that the awards for the portion of those funds used for grants will be announced next week, ahead of the aggressive schedule set by the Fiscal year 2012 Appropriations Act. This will ensure that these funds get into the hands of the counseling agencies that need them as quickly as possible.

FHA AS PART OF THE ADMINISTRATION'S EFFORTS TO BOLSTER THE HOUSING MARKET

The increase in FHA's market share is directly tied to its countercyclical role in the recent economic crisis. In addition, FHA is playing a critical role in the administration's work in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started—including more than 950,000 permanent HAMP modification saving households an estimated \$11 billion in monthly mortgage payments and nearly 1.2 million FHA loss mitigation actions and early delinquency interventions.

Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started—including more than 950,000 permanent HAMP modification and nearly 1.2 million FHA loss mitigation actions and early delinquency interventions—saving households an estimated \$11 billion in monthly mortgage payments.

As part of the administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. Examples of our efforts include:

—*FHA Streamline Refinance*.—An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers—particularly those whose loan value may exceed the current value of their home—and by lowering a borrower's payment, also reduces risk to FHA. To help more FHA borrowers take advantage of this program, this week FHA announced an adjusted premium structure for these loans, reducing premiums for all Streamline Refinance transactions that are refinancing FHA loans endorsed on or before May 31, 2009, to further incentivize refinance activity. These changes—reducing the upfront mortgage insurance premium for these loans to 1 bp and the annual to 55 bps—will ensure that borrowers benefit from a net reduction in their overall mortgage payment while still ensuring FHA has the resources to pay any necessary claims. This change to the premium structure of Streamline Refinances is also consistent with the annual premium that these borrowers were subject to when their loans were originated.

And, because we see potential for more widespread use of this product, FHA will make changes to the way in which streamline refinance loans are displayed

in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

—*Short Refinance Option.*—In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

To protect FHA's MMI Fund, a line of credit in the amount of \$8 billion has been set up to cover losses the fund might incur as a result of the FHA Short Refinances having a higher than normal default rate. The funds, from the TARP program, are available in the event any of the short-refis go into default. To date, there have been no claims filed for the short-refis and the program has not used any of the TARP funds.

—*Homeowner Bill of Rights.*—As another critical component to the recovery of the housing market, the President has also put forward a Homeowner Bill of Rights—a single, straightforward set of commonsense rules that families can count on when they're shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they're making the most important financial decision of their lives. And those rights shouldn't end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won't be sold in foreclosure at the same time they are filling out paperwork to get help.

FHA servicing standards will be updated to incorporate the principles in the Homeowner Bill of Rights.

—*REO to Rental.*—A glut of vacant foreclosed properties continues to drag down property values and meanwhile, rental rates are rising as those who lose their homes to foreclosure seek rental housing, creating an unprecedented imbalance of supply and demand between the purchase and rental markets. This problem requires a creative, innovative mode of addressing the inventory of unoccupied homes in our communities. When there are vacant and foreclosed homes in neighborhoods, it undermines home prices and stalls the housing recovery. The administration began tackling this issue through the Neighborhood Stabilization Program (NSP) and our efforts have expanded our efforts through the REO to Rental initiative.

As part of the administration's effort to help lay the foundation for a stronger housing recovery, the Department of Treasury and HUD have been working with the FHFA on a strategy to transition REO properties into rental housing. Repurposing foreclosed and vacant homes will reduce the inventory of unsold homes, help stabilize housing prices, support neighborhoods, and provide sustainable rental housing for American families.

With about a quarter of a million foreclosed properties owned by HUD and the GSEs, this August, HUD joined with the Federal Housing Finance Agency (FHFA) and Treasury to issue a Request for Information (RFI) to generate new ideas for absorbing excess inventory and stabilizing prices. In all, about 4,000 submissions were received and, over the past several months, the interagency task force has been reviewing the submissions and formulating strategies based on the best practices gathered from the RFI. Throughout this process, the task force has continuously met with industry members, community groups, and other key stakeholders to make sure they are heard in the strategy development process. Ultimately, we expect a range of strategies to emerge; however the most commonly discussed centers around selling REO properties to buyers who will convert and market them as rental units.

Last week, Fannie Mae announced the first pilot program as part of the RFI, releasing details on its plan to sell homes that are part of its tenant in place portfolio. This is the first of a several collaborative efforts to clear the Nation's shadow inventory, an effort that FHA is an active part of. We plan to learn and leverage all we can from this initial pilot as we work towards conducting a series of additional pilots throughout the rest of the year.

—*Broad Based Refinance.*—Last, the President has called on Congress to open up opportunities to refinancing for responsible borrowers who are current on their mortgage but whose loans aren't backed by FHA or the GSEs. Under the proposal, borrowers with standard non-GSE, non-FHA loans will have access to refinancing through a new program run through FHA.

The program will be simple and straightforward. Any borrower with a loan that is not currently guaranteed by the GSEs or insured by FHA can qualify

if they meet the following criteria—each of which is designed to help reduce risk to the taxpayer:

- They are current on their mortgage: Borrowers will need to have been current on their loan for the past 6 months and have missed no more than one payment in the 6 months prior.
- They meet a minimum credit score. Borrowers must have a current FICO score of 580 to be eligible. Approximately 9 in 10 borrowers have a credit score adequate to meet that requirement.
- They have a loan that is no larger than the current FHA loan limits in their area: Currently, FHA limits vary geographically with the median area home price—set at \$271,050 in the lowest cost areas and as high as \$729,750 in the highest cost areas.
- The loan they are refinancing is for a single family, owner-occupied principal residence. This will ensure that the program is focused on responsible homeowners trying to stay in their homes.
- They are currently employed. To determine a borrower's eligibility, a lender need only confirm that the borrower is employed.

Borrowers will apply through a streamlined process designed to make it simpler and less expensive for both the borrower and the lender. The President's plan includes additional steps to reduce program costs, including:

- Establishing loan-to-value limits for these loans. The administration will work with Congress to establish risk-mitigation measures which could include requiring lenders interested in refinancing deeply underwater loans (e.g., greater than 140 loan-to-value) to write down the balance of these loans before they qualify. This would reduce the risk associated with the program and relieve the strain of negative equity on the borrower.

Cost-Savings to the Borrowers Who Participate in This New Program.—Given today's record low interest rates, we estimate that on average, borrowers who participate in this program would reduce their monthly payments by between \$400 and \$500 a month.

Option To Rebuild Equity in Their Homes Through This Program.—All underwater borrowers who decide to participate in this refinancing program through the FHA outlined above will have a choice: They can take the benefit of the reduced interest rate in the form of lower monthly payments, or they can apply that savings to rebuilding equity in their homes. The latter course, when combined with a shorter loan term of 20 years, will give the majority of underwater borrowers the chance to get back above water within 5 years, or less.

To encourage borrowers to make the decision to rebuild equity in their homes, we are proposing that the legislation provide for incentives to borrowers who chose this option. Possible incentives include paying for closing costs or a lower MIP. To be eligible, a participant in this option must agree to refinance into a loan with a term of no more than 20 years and with monthly payments roughly equal to those they make under their current loan.

A Separate FHA Fund.—The broad-based refinance program will have a separate fund that is funded through premiums established and direct funding provided under this program with its net cost offset by the financial crisis fee. The program's premium structure will be designed in a way to ensure that homeowners have the incentive for lower monthly payments through the program. By maintaining a separate fund and funding source for this program the broad-based refinance will not be contingent on appropriations action and will have no impact on FHA's MMI Fund.

Expanded refinance options for homeowners with non-GSE and non-FHA loans, along with changes to the FHA Streamline Refinance, create a critical patchwork of refinance programs for responsible borrowers who are current on their mortgage loans. Through the efforts of HUD and its administration partners, working together with Congress, we can ensure that every family can have the opportunity to take advantage of today's historically low interest rates. This will save homeowners thousands of dollars a year, and as a result provide much needed payment relief and further strengthen the economy.

CONCLUSION

Madam Chairman, this budget reflects this administration's belief that the recovery of our housing market is essential to the restoration of our economy and that FHA is critical to restore health and confidence to the housing market in particular. By targeting resources where they are most needed, making tough choices in order to do more with less, and ensuring the protection of taxpayer interests, FHA's Single Family, Multifamily, Healthcare and Housing Counseling Programs, are ensur-

ing more Americans have the opportunity to realize or maintain the economic security of the middle class. And the work this administration has done has established a strong foundation upon which we will construct an economy built to last.
Thank you.

FEDERAL HOUSING ADMINISTRATION—STREAMLINE REFINANCE PROGRAM

Senator MURRAY. Thank you very much for your testimony.

Let me start by asking you about earlier this week when the President announced changes to the FHA Streamline Refinance Program. FHA borrowers can already do streamline refinances, but the changes would reduce the costs.

Specifically, any borrower who is current on their mortgage and has a mortgage that was originated before June 2009 would pay an up-front premium, I understand, of .01 percent, and an annual premium of .55 percent? Normally borrowers would have to pay the current up-front premium of 1.75 percent and an annual premium of 1.25 percent.

This change has the potential to help borrowers enjoy the benefits of lower interest rates, but we are all focused on solvency of the MMI Fund. So, I am concerned about the impact of that change on that fund.

So, first of all, I wanted to ask you, who will benefit from this change, and how many you would expect to benefit? And second, what effect do you think that will have on the MMI Fund?

Ms. GALANTE. Thank you for the question.

So, there are a large cohort of borrowers who will benefit from this. Something in the magnitude of 2.5 million borrowers are eligible under those criteria that you mentioned. And these are people who are already paying 55 basis points on an annual basis for their mortgage insurance premium, so they will continue to pay the same amount and receive the full benefit, essentially, of a reduction in interest rate from wherever they are today, which obviously varies, but somewhere between 6.5 percent down to today's rates of around 4-plus percent.

So, there is significant benefit to them in monthly savings. Again, these are borrowers that already need to be current on the mortgages, so they are good, paying borrowers at this point in time. However, we all know that everyone is under stress in this economy, and if we can help those borrowers put some additional money in their pocket, we believe that over the long term, that strengthens their ability to continue to pay their mortgage payment, and does not cost FHA anything to get that essentially additional layer of security that they will continue to pay.

So, the only cost to this, really, would be the assumption that there were some people who would have refinanced at the higher mortgage insurance premiums, and we will not receive—there is an opportunity cost for not refinancing those people at the higher mortgage insurance premium. But in the mix, it is a very low amount to pay for that extra so-called insurance that doing the Streamline Refinance Program will benefit.

And with our other changes, the 75 basis points up front for all other borrowers combined, we will net between fiscal years 2012 and 2013 an additional \$1 billion in premium increases.

Senator MURRAY. So, you do not see an impact on the MMI Fund, or you think it will benefit the MMI Fund.

Ms. GALANTE. I think, long term, it will benefit the MMI Fund. And with the up-front premiums that we are charging for the balance of borrowers, again, we believe we are going to net, in addition to what is already in the President's budget, \$1 billion in budget receipts.

Senator MURRAY. Okay. When you announced the policy change, you also said some lenders are resistant to doing streamline refinances because they are concerned about how those loans might impact their performance assessments that are done through the Neighborhood Watch System. This system compares the performance of a lender's loans with other similar lenders.

And so, to ease those lenders' concerns, the new policy is to exclude those loans from the compare ratio. I certainly want to see more borrowers take advantage of low interest rates, but I also want to make sure we are monitoring FHA lenders. So, how can you ensure us that lenders will still be held accountable for poor performance?

Ms. GALANTE. Right. So, a very good question. And they will continue to be held accountable. Whoever originated that loan is still accountable for the origination. If there was fraud or there was a problem in that original origination of that loan, that lender can still be held accountable under our indemnification processes.

So, we do not think that that change will have a material effect on our ability to monitor lenders for their origination errors.

FEDERAL HOUSING ADMINISTRATION—MUTUAL MORTGAGE INSURANCE
FUND

Senator MURRAY. Okay. The most recent quarterly report to Congress on the MMI Fund shows an increase in early period delinquencies for Streamline Refinance mortgages. That raises some concerns about the current proposal. However, the report does note that changes to the program have been made requiring lenders to certify income and employment at the time of refinance.

Can you explain the changes that you made to the program requirements and what impact you expect that to have on the performance of Streamline Refinance loans going forward?

Ms. GALANTE. So, when the Streamline Refinance was first being used in the beginning of this crisis, there were not some of the controls that you just mentioned on the program. Putting those controls in, we believe, will significantly help the re-default ratio of those loans.

It is true that people who are being refinanced because they are under some kind of stress, even though they are current on their mortgage, may have a slightly higher default ratio than other people. But on the other hand, we are going to be better off if they do not ultimately default because we have lowered their interest rate. If we can help them stay out of default by lowering their interest rate and putting more money in their pocket, ultimately, we are going to benefit from that.

Senator MURRAY. Okay. When the Secretary was here last week, we spent a bit of time talking about the health of the MMI Fund

and the current expectation that an appropriation will not be needed to cover the re-estimate.

In the past few weeks, there have been a lot of numbers released on the MMI Fund related to all the various settlements and premium increases. And I understand that the settlements have not been filed in court, so these numbers still are not final. But if you could, can you give us just a walk through on what has happened and where we see these, including the premium increases in various settlements, and the impact on the MMI Fund?

Ms. GALANTE. Right. So, the budget projection in the President's budget was that if there were no additional policy changes and MIP (mortgage insurance premium) increases, and no additional funds through enforcement actions, and the economics that the projections were based on stayed the same and the volume stayed the same, that we could need to draw \$688 million from Treasury.

Given the policy changes in the premiums, which will generate, as I said, over fiscal year 2012 and into fiscal year 2013, more than \$1 billion of receipts, and the approximately \$900 million that comes from the settlement negotiations, those two things obviously take away the need for the \$688 million and leave us in the plus category to some degree.

Now, all of this is based on assuming that there is not any major change in our volume from the projections that were in the President's budget, or from some other worsening of economic conditions.

So, there is still some risk, and we do not pretend that there is not. But it is much less likely given the policy changes that we have put into place.

Senator MURRAY. Okay. Thank you very much.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairwoman. I want to follow up on the very issue that you were just discussing with Senator Murray. It does appear that the FHA, contrary to the projections in the President's budget, will narrowly avoid requiring funds from the Treasury in this fiscal year. But there are circumstances under which these steps that have been taken, such as the increase in mortgage insurance premiums and the funds from the settlement, might not be sufficient to keep the FHA from requiring an infusion of cash from the Treasury.

You mentioned broader economic issues. But if you could be more specific on what could cause the Treasury, to be needed after all, despite the insurance premium increase and the settlement funds.

Ms. GALANTE. So, I think the major issue is if house prices decline and they decline significantly from the projections both under the President's budget and from our actuarial, which had different projections. So, there is a range here.

But the fact is, everyone is at risk of where house prices are going relative to the whole economy. We are starting to see some stabilization there. We are starting to see some good signs. But we have seen the beginning of some good signs before, and so we do not want to take that for granted, that it is just absolutely going to turn the corner here.

So, we are continuing to do everything that we can, including increasing premiums, including additional enforcement actions. The

settlements that you have seen are not necessarily the end of FHA's enforcement actions to keep lenders accountable.

We are also making changes in our REO processes, as has been widely publicized. Again, if we can recover more dollars as we dispose of our REO, if we can stabilize the housing market through those kinds of actions, all of that will ultimately help the MMI Fund.

So, we are going to continue to monitor this very closely. We are going to continue to take additional actions that we need to take to keep the fund healthy.

MORTGAGE INSURANCE FEES

Senator COLLINS. But it seems that the administration is going in contrary directions when it comes to fees and mortgage premiums. On the one hand, you are increasing the premiums, but as part of the FHA's Streamline Refinance Program, you are actually substantially reducing fees and premiums.

Now, I recognize that that is great news for hundreds of thousands of families, potentially lowering their monthly payments. But that obviously has a negative impact, I would think, on the FHA's capital reserves.

Now, you said in response to a question from Senator Murray that ultimately you think that it is going to benefit the fund. I am trying to understand how cutting the fees will benefit the fund. Is it that you expect to make it up in volume? It seems inconsistent with your overall approach of increasing premiums.

Ms. GALANTE. So again, this does get a little bit confusing. But these are borrowers who are already in our portfolio, who are paying 55 basis points on an annual basis today.

And what we have done under the Streamline Refinance that was announced this week is we have said, if they want to refinance at today's current interest rates, essentially they get to keep the same premium that they have as opposed to having to pay the new current premiums that we have increased, not just this past week, but that we have increased over the past 3 years.

And so, if they had to pay those higher premiums, the \$175 up front and 1.25 points over time, that would so significantly cut into their net benefit on a monthly basis that many of them simply would not choose to refinance. So, they would just stick where they are, and they would in some ways be a higher risk to us because they are paying a higher interest rate today, and they are not being able to take advantage of the lower interest rate.

So, that is why we really believe that this is different than charging new borrowers for higher mortgage insurance premiums.

Senator COLLINS. I understand that, but are you not actually cutting their fees compared to the fees that they are currently paying? I understand they are not going to have to pay the higher fee, but it was my understanding that you were going to cut the annual fee in one-half and cut the up-front insurance premium costs from 1 percent of the loan balance to .01 percent.

Ms. GALANTE. So, here is where it gets a little difficult. For the current borrowers, they are already paying that 55 basis points. What we are saying is we are not going to jack you up to the higher mortgage insurance premiums. And we had been doing that to

other borrowers. That is how we have been running this program until June 1 when we have this go into effect.

So, it is not cutting the existing borrowers' fees. It is that they will not have to pay the higher fee, if that makes sense.

CAPITAL RESERVES

Senator COLLINS. Let me move to the statutorily mandated level of 2 percent for the capital reserves. This really troubles me because this is not a guideline. It is not a best practice. It is not a suggestion. It is not a recommendation. It is the law. And for the third year in a row, FHA has not met that level.

Now, I understand why, and the total collapse of the housing market—and I know that you are putting in new premium increases and proposing new rules related to lender oversight. I guess my question is, are you confident that that is going to be adequate?

I do not think you should be relying on a one-time windfall from the lender's settlement to get you back to the statutorily required level.

Ms. GALANTE. So, we certainly are not relying exclusively on the settlement funds to get us back to the level. I mean, \$900 million is not going to get us back to a 2-percent capital reserve. That is why we have been over the past 3 years increasing mortgage insurance premiums significantly.

So, we have between the start of this administration and the premium increases announced last week, we have doubled the mortgage insurance premium on FHA loans. And we are financing borrowers at very low interest rates. Those loans are going to stay with us and continue to be paying a mortgage insurance premium for many years to come.

And we are not going to get there up to the 2-percent capital reserve in 2013. It is going to take a couple of years of the loans that we have and that we have put this additional premium increase on. It is going to take a couple of years to late 2014, early 2015, before we project we will back to the 2 percent. And it is not a result of just the settlement. It is a result of these ongoing increases in premiums to help us get there, as well as other activities, other policy changes that we are making.

RISK ASSESSMENTS TOOLS

Senator COLLINS. Thank you, Madam Chair.

Senator MURRAY. Clearly the re-estimates are going to be impacted by the conditions in the market that is outside, has control, if prices of homes decline or whatever. I think everybody understands that. But we also know that HUD has to work to improve its ability to monitor its risk and its estimates. And the Government Accountability Office (GAO) has recommended improving your risk assessment tools to better incorporate the risk of future economic volatility.

In years past, the Congressional Budget Office (CBO) has raised concerns about your estimates, and I understand that you currently have a contract that will allow you to use stochastic modeling in the next actuarial review.

Can you explain how that modeling is different than what you are doing today, and how that will change your estimates?

Ms. GALANTE. Sure. I will take a stab at it. We, first of all, appreciate the help that Congress has given us in funding a number of important initiatives that help us get the modeling as up to date as possible.

And stochastic modeling allows us to really have more dynamic scenarios built in, more variables built in, to monitor many different increases and changes in market conditions. And so, it will enable us to have many more points of range of—under different economic conditions, what happens?

So, it is going to provide us significantly more information than we have under the current modeling. But I would also say the modeling has been improved over the past couple of years. It has not been a static situation.

Senator MURRAY. Does that address the concerns that GAO outlined for you?

Ms. GALANTE. I believe so, yes.

Senator MURRAY. In your testimony, you said HUD has clarified the rules around lender indemnification for insurance lenders. What aspect of the rules did you feel were important to clarify, and what effect will those changes have on enforcement going forward?

Ms. GALANTE. So, the most important thing was to define material and serious violation so that lenders—this cuts two ways—lenders will know that we are not going after minor little box checking errors, but it is clear what they will be held accountable for. So, that helps them understand the standard that we are going to be looking at. So, that was the most important thing.

Senator MURRAY. Okay. You expressed an interest in getting two additional authorities to strengthen FHA's enforcement abilities, including lender indemnification requirements to direct endorsement lenders, and expanding your authority to remove lenders from the program on a national basis. Can you explain why those different rules currently apply to those different classes of lenders, and what impact those proposals will have on your enforcement?

Ms. GALANTE. So, right now the indemnification rules apply to our lender insurance program, which covers, I think, 70 percent of our volume, but only 30 percent of our lenders. So, we kind of have a reverse situation here where the largest lenders doing the most amount, we can get indemnities from. But for the smaller lenders who are direct endorsers, we do not have that authority. So, that would be a smaller volume, but it is still important to be able, in our view, to have the same authority for both types of lenders. So, that is one statutory requirement that we would like.

The other is, right now, it is incredibly cumbersome to go after lenders when we see a systematic problem with a lender that operates in multiple jurisdictions, because we need to look at their offices on a geography by geography basis and what problems they have in that office. So, this makes it very hard when we are in the 21st century where lenders are operating all across different geographies, and our statutory requirements have not really kept up with the need to have that kind of systematic overview.

Senator MURRAY. Okay, good. And the HUD Office of Inspector General has recommended that you seek legislative and program

changes to prevent lenders and their corporate officers from reentering the program as an officer with the same or a new lender. Is that a recommendation you agree with?

Ms. GALANTE. We do conceptually agree with that. We have got to figure out exactly what the legal statutory language would be to walk a path of ensuring that we are keeping the bad guys out from just coming in the back door with another lender, but not trapping everybody who has worked for an institution, for example, that had issues, but perhaps were not directly involved in the——

Senator MURRAY. So, the concept you agree with.

Ms. GALANTE. The concept we absolutely agree with.

Senator MURRAY. The language, we have to be careful with.

Ms. GALANTE. Correct. That is correct.

REAL ESTATE-OWNED PROPERTIES

Senator MURRAY. Okay. As a result of foreclosures and home price declines, the rental housing market is really tightening. So, on the one hand we have an excess supply of distressed housing, and on the other we have increased demand for rental housing and a shortage of affordable housing.

Last August, FHA, Treasury, and the Federal Housing Finance Agency put out a request for information to determine interest in a proposal to sell distressed properties more systematically.

FHFA recently announced a pilot sale of real properties, which would include the sale of 2,500 properties in bulk. Your testimony mentioned that following that pilot, FHA would do its own. What, specifically, is HUD considering in terms of a pilot, and do you have a timeframe on that?

Ms. GALANTE. So, yes, thank you. There are a couple of things we are doing on that. The first is the Fannie pilot; the initial pilot is for properties where they had already tenants in place, and so it is a little bit separate from the rest of the REO-to-rental strategy that we are, as FHA, also working with FHFA and Government-sponsored enterprises (GSEs) on. And we, together, are looking at other pilot communities where all three of us—it might make sense to have a pilot where there is stock from each of those institutions, because one of the things we are trying to get to is ensuring that there is a reasonable number of units in a geography so that someone could actually own and manage these homes as rental housing in a cost-effective manner.

Frankly, all of us have been working down our REO at the moment, and so there are limited geographies where it makes sense to do this all together. So, we are identifying those places, and I would hope in the next month or two that we would be able to announce where we would want to continue to work together.

FHA is doing some other things on its own. We are interested in ramping up our Notes Sale Program. And without getting into the details, that is essentially a pre-REO sale of the note with the existing borrower in place. And then whoever buys that note has the opportunity to and requirement to work that borrower, maybe rent them back, maybe put them in a lease-to-own. There are a variety of mitigation measures that they can do before the property reaches REO, because by that point, we are already losing a signifi-

cant amount of money. So, there are a number of other things that we are working on around that pilot.

Senator MURRAY. Okay, great. Appreciate it.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairwoman.

The administration has proposed paying for its broad-based refinancing plan by charging a fee on large financial institutions, a so-called bank tax.

This fee has previously been proposed and rejected by Congress. When Secretary Donovan was before us, and also in an interview that he gave with reporters, he said that while he personally believes the fee is the right approach, HUD is open to exploring alternatives.

What alternatives is HUD looking at?

Ms. GALANTE. So, Senator, I would say I do not have a particular alternative to put on the table. The President's proposal does include the financial responsibility fee. If there are other ideas—I think what we are saying is that we are open to consider other alternatives for this. But it is important, back to the health of the FHA fund—we really think it makes sense to do this broad-based refinance program, but we also think it is important to have segmented from the MMI Fund, and whatever risk is in that fund to be funded from a separate pot of money.

Senator COLLINS. I would suggest to the administration that since this proposal did not go anywhere in the past, that it would be really helpful if you came forward with other approaches that might be better received. I told the Secretary that too. I know it is a little bit out of your lane, but I did want to bring it up today.

Madam Chair, I am going to submit the rest of my questions for the record because I do have to go to the floor to present an amendment.

Senator COLLINS. But thank you for holding this important hearing. And Ms. Galante, thank you for being here today.

Ms. GALANTE. Thank you.

Senator MURRAY. Thank you very much, Senator Collins. And I just have a couple of questions left, and I appreciate your answering. Many of our questions we will have to submit in writing today.

UNDERWATER MORTGAGE RELIEF

Senator MURRAY. We are beginning to see signs of life in this housing market, but there are still some looming concerns, especially about the number of underwater mortgages and the shadow inventory that is eventually going to hit the market. The settlement with those five largest servicers includes \$17 billion in direct consumer relief that will be provided to borrowers through help, like principal write-downs and short sales. It also includes \$3 billion to support mortgage refinancing for underwater borrowers.

I wanted to ask you how you expect the servicers to allocate the direct consumer relief among various relief options, and what do you expect the impact of that \$3 billion to be?

Ms. GALANTE. So, again, I think some of this is going to be worked out over time. Each servicer has an allocation of the \$3 billion of refinancing and the \$17 billion in principal reduction and

other consumer relief. And they have allocations based on a State-by-State basis.

So, we do expect that—the combination of all of those menu of services across the country will help somewhere in the magnitude of 1.7 million owners through a variety of those activities. And it is going to depend on what their individual portfolio looks like, what State they are in, and a number of other factors.

Senator MURRAY. So, we could see a different picture and different—

Ms. GALANTE. Different picture in different States and by different institution depending on, again, what kind of borrowers they have in their portfolio.

MORTGAGE SCAMS

Senator MURRAY. Okay. And finally, I wanted to ask you about mortgage scams. An important part of the recent settlement is that it provides relief to homeowners. But throughout this housing crisis, we have seen a lot of scam artists who are preying on vulnerable homeowners. And those perpetrating those scams have been incredibly skilled at adjusting their tactics as new opportunities arise. Are you concerned that scam artists could try and take advantage of homeowners who may be eligible for relief through this settlement?

Ms. GALANTE. We are concerned, not just about the settlement, about that, but more broadly. When I was out at the event with the housing counselors that I mentioned in my testimony, that was one of the big things I heard, that the housing counseling community is trying to stay ahead of the scam artists. And, they get people who come into them after they had been taken advantage of. And it is a serious problem.

I would say that we have a campaign that we are working with a number of other agencies and nonprofits that is a consumer education campaign. And in fact, this week is National Consumer Protection Week, and we are launching a campaign down in Atlanta today actually. The press release probably is coming out today. It is called Know It, Avoid It, Report It, and there is—

Senator MURRAY. Know, Avoid It, Report It?

Ms. GALANTE. Know It, Avoid It, Report It. So this is reaching out to borrowers to make sure that they understand that there are scam artists, and if they see it, if they are being asked for money to do certain activities, there is a number they can call. There is a Web site they can go to to report the scams that they are seeing.

Senator MURRAY. Okay. I urge you to be really aggressive on that because these scam artists are really aggressive and stay ahead of us. So, I appreciate that, and we will be following that closely as well.

Ms. GALANTE. Right.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. I believe that is all the questions that we have for you at this time. Again, we will leave the record open for additional questions and your comments back.

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

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

EVALUATING RISK

Question. Given the volume of loans that FHA insures, it is critical that it has the capacity to monitor and assess risk. Two important aspects of this are: Staff with the appropriate expertise, and modern IT systems. In the fiscal year 2012 bill, the committee set aside \$8.2 million for the Office of Risk and Regulatory Affairs to support increased risk controls. What is the current status of this relatively new office?

Answer. Led by a Deputy Assistant Secretary with extensive experience in assessing credit risk, the Office of Risk Management and Regulatory Affairs (ORMRA) recently received its delegation of authority to carry out, in concert with program offices, all risk management, analysis, and evaluation functions, including decisions and corrective measures related to risk assessment, risk management strategy, and risk governance policies. With several credit risk officers already on staff, the office is in the process of hiring additional staff with credit risk and operational risk expertise to ensure that there is sufficient coverage and expertise to review and report risk across all FHA platforms.

The Office of Risk Management and Regulatory Affairs is authorized to conduct risk management and risk assessment activities including, but not limited to the following:

- Recommend actions to support FHA’s ability to reduce risk exposure to its insurance funds while meeting its housing mission and operating in compliance with statutory capital requirements;
- Promote transparency and comprehensive communication of FHA’s risk profile by establishing reporting metrics for key constituents, both internal and external, in order to communicate, both qualitatively and quantitatively, FHA’s risk levels, trends, priorities, risk mitigation activities, and impacts;
- Identify the policies and processes that are key drivers of risk via a structured risk identification framework: I.e., recommend risk mitigation strategies for FHA and specific program areas and provide independent oversight and assessment of risk remediation activities; provide input and guidance to program areas on key risk analytics, policies and practices, including, but not limited to, algorithms and underwriting used to identify, measure, and manage risk-related to endorsement and management of Single Family, Multifamily, and Healthcare programs, and collaborate with program areas regarding counterparty risk (lenders and servicers), portfolio asset management strategies, and enforcement practices to protect FHA’s insurance funds;
- Design and maintain a comprehensive Risk Governance infrastructure, including implementing policies, processes, and committees to reduce risk exposure to the insurance funds; i.e., advise and provide oversight for the implementation of policies, processes, and committees that comprise the governance structure;
- Ensure the timely and proper conduct of statutorily mandated and other necessary risk analyses, including the annual actuarial study of the Mutual Mortgage Insurance Fund and front-end risk assessments (FERA) for new and high-impact programs and activities, in accordance with Federal standards, and in concert with other Office of Housing offices; and
- Ensure that risks are measured, monitored, and managed according to an integrated framework across FHA and Office of Housing program areas.

In order to carry out its functions, the ORMRA has instituted monthly credit risk committees with each FHA program office to evaluate loan performance data and make informed policy decisions which account for risk. In addition, the Office is utilizing the work of FHA Transformation to create and obtain monthly reports based on various model scenarios that will allow FHA to evaluate the health of the FHA fund on a more regular basis throughout the year.

ORMRA’s Office of Evaluation assesses the financial impact of new or revised HUD/FHA programs and policies; new or proposed legislation; and/or new or proposed directives, studies or rules of the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Department of the Treasury (Treasury), or other agencies. The Office of Evaluation is responsible for actuarial analyses and cash-flow projections of the FHA insurance funds and evaluates relationships between current market conditions and FHA program goals and objectives. The Office of Evaluation estimates the financial impact of policy changes or external

factors on FHA programs. In addition, that Office conducts a quarterly analyses of economic developments and ongoing portfolio analyses of FHA's insurance funds.

The operational risk team within ORMRA has begun adopting GAO's recommendations from its November 2011 Report on Improvements Needed in Risk Assessment and Human Capital Management. This includes employing stochastic modeling for the 2012 actuarial report. Recently, the Office briefed GAO on its accomplishments to date in connection with such report.

Question. GAO has noted the importance of integrated and updated risk assessments to the solvency of the Mutual Mortgage Insurance (MMI) Fund. Will the Risk Office assist in more integrated risk assessments?

Answer. Yes, the Office of Risk Management and Regulatory Affairs (ORMRA) will assist in more integrated risk assessments. ORMRA is leveraging the current process utilized by the Office of Single Family Housing in its quarterly Internal Quality Control Reports to populate a baseline operational risk assessment. This baseline operational risk assessment will be used in conducting the annual risk assessment. ORMRA and Single Family will partner in conducting the annual risk assessment so that it is a more integrated and coordinated effort. In addition, ORMRA and the program offices plan to hold quarterly operational risk committee meetings to review the Internal Quality Control Reports, the risk assessments, and monitor the remediation plans.

Question. Modern IT systems are necessary for FHA to assess risk effectively. Unfortunately, many of HUD's IT systems are decades old. This committee has provided HUD with millions of dollars, primarily through the Transformation Initiative, to modernize FHA systems. What is the status of that project? And when can we expect to see the benefits of these updated systems?

Answer. The project is maximizing the funds appropriated by Congress to the greatest extent. We have completed several studies documenting a roadmap to follow for implementing business services on the Federal Financial Services Platform. We have identified the required Risk and Fraud tool, along with a Portfolio Evaluation tool. Procurement and deployment of the tools are underway. We need funding in fiscal year 2013 and beyond to continue to implement the vision of FHA Transformation which is a priority of the committee.

Benefits of the FHA Modernization capital investment are being realized today. Acquisition of the Federal Financial Services Platform (using Oracle Exalogic hardware, featuring the integrated Fusion Middleware software stack) is the cornerstone IT investment. This platform ultimately has enterprise extendibility and provides the capability and capacity to replace the Unisys and IBM mainframe systems at some logical point in the future. Eighty percent of the initial planned environments are built out on the Oracle Exalogic platform; 100 percent by August 31, 2012. A requisition for additional Oracle Exalogic hardware/software is in the procurement pipeline. This additional capacity positions us to accept requirements from other offices in the Department (e.g., Public and Indian Housing (PIHs), Next Generation Management System (NGMS) projects); accordingly, this achieves true enterprise capability and demonstrates scalability. The Lender Electronic Assessment Portal (LEAP) application consists of four modules (i.e., Approval, Recertification, Monitoring and Enforcement) that are in various stages of development and production. Today LEAP automates what largely has been a manual and paper intensive process. The LEAP application wholly aimed at improved counterparty (i.e., lender) management, addresses vestiges of risk and fraud at the front end (or origination) of the loan rather than relying on the antiquated process during the post-endorsement process. The Approval module went live in April 2012 and is successfully processing a steady state volume of request. The Recertification Generation I module is slated for operational capability in the second quarter of fiscal year 2013 with design and development of the other modules in the ensuing months; LEAP is projected to achieve full operational capability in the first quarter of fiscal year 2014. Consistent with addressing significant constraints on risk and fraud detection, the Loan Review System (LRS), Portfolio Evaluation Tool (PET) and Automated Underwriting System capabilities are slated to achieve operational capability in early fiscal year 2014. This complementary set of tools and capabilities effectively provide decision support (and analytics) at every step in the process of the loan lifecycle, from origination through post-endorsement technical review.

Question. Given FHA's significant presence in the market, the systems FHA uses to conduct its business are constantly in use. Therefore when new systems come online, transitioning from the existing systems to new ones will require careful planning. What are your plans for making sure that the transitions to new systems are as smooth as possible?

Answer. FHA will continue to fully embrace HUD's Project Planning and Management (PPM) framework. New system deployments will be coordinated with all

stakeholders to minimize disruptions and training costs. FHA will assess the operational readiness of each system, prior to its “go live” phase. Consistent with the PPM methodology, FHA will so document and detail the plans and procedures to decommission legacy systems as they are no longer needed. Launch of the business services will follow the industry best practices of beta testing, soft launch and full scale launch. Appropriate communications will be shared with users of the business services, to include citizens.

QUESTIONS SUBMITTED BY SENATOR ROY BLUNT

FHA'S SOLVENCY

Question. As one of the only games in town, the Federal Housing Administration (FHA) continues to have a ballooning portfolio, well above the intended size. The administration's white paper proposes various reform options for the Government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. How can the Department of Housing and Urban Development (HUD) ensure that FHA won't become the lender of last resort for home loans should the private market move slowly, if at all, to fill the space it once filled?

Answer. The administration is currently working diligently on a number of inter-agency projects set forth in the white paper that was published in February 2011, including a detailed exploration of the three options for the future of housing finance. Of those three options, the third one does provide considerations around maintaining some Government presence through a model that would serve as a back-stop in the form of reinsurance behind significant layers of private capital at a guarantor level. Below is greater detail on the strengths and weaknesses of this third option. However, to be clear, the administration is still working with a number of stakeholders, including Members of Congress, to fully explore all three.

At the same time, the administration is equally engaged on topics that directly involve the GSEs, such as the development of national servicing standards, a transition plan for the wind down of Fannie Mae and Freddie Mac from their current status and reducing the footprint of the FHA. It is important to remember that the FHA and GSEs continue to provide an important source of credit availability as Government and industry work collectively to reduce the barriers of uncertainty that block a robust return of private capital. Thus, while the administration supports decreasing the role of FHA, Fannie Mae, and Freddie Mac and re-invigorating the private market, we also believe that any approach must be measured and comprehensive to address the tensions your questions above elicit.

Question. The administration's budget once again requests increases in MMI premiums to help strengthen the fund. While I'm encouraged by the increase in liquidity to protect against risk to the solvency of the fund, I question whether the already bloated portfolio will grow in 2013 rather than shrink as your budget assumes. What steps are being taken to encourage private lenders to originate quality, non-FHA insured loans? How can HUD encourage the private market to provide home loans for minorities who disproportionately rely on FHA's Government guarantee?

Answer. In February 2012, HUD announced an increase in FHA annual and up-front mortgage insurance premiums, effective in April 2012. The decision to adjust FHA premiums for the fourth time since 2009 was made by balancing several factors—FHA's mission of providing access to credit for low-wealth, creditworthy borrowers, the health of the Mutual Mortgage Insurance Fund and FHA's long-term role in the Nation's housing finance system. As a result of these premium adjustments, FHA has been able to continue to serve its counter-cyclical role in the mortgage market—providing access to credit to creditworthy borrowers during this time of market constriction—but has seen overall volume decline. According to Amherst Securities' June 14, 2012, Amherst Mortgage Insight Report, the composition of FHA loans in Ginnie Mae securities has actually declined. This is in large part because these pricing changes have made conventional loans more competitive; high FICO borrowers who may have chosen to take out an FHA insured loan rather than a loan with private mortgage insurance are now finding the costs of private versus federally backed mortgage insurance more comparable. However, adjusting premiums is only one lever. Currently, FHA is the only federally backed institution able to originate high-priced loans (loans above \$625,500). As a result, borrowers seeking these “jumbo” loans only have one outlet—FHA. In its housing finance reform white paper, the administration urged Congress to allow the higher loan limits to expire. Unfortunately, in November 2011, Congress elected to extend these limits for FHA while allowing the GSE loan limits to go back to pre-crisis levels. This does

create a disincentive to originate non-FHA loans in some markets and so we would once again urge Congress to allow FHA loan limits to step back to the HERA levels.

COMMERCIAL LENDING

Question. In my home State of Missouri, we have a large man-made lake with a substantial volume of lakefront properties, as well as continued commercial development. That said, HUD continues to promote mixed-use properties as needed housing stock diversity for communities. FHA's condo rules prohibit the purchase of a condominium in a property with more than 25 percent commercial space. What is the purpose of this restriction, and doesn't it run contrary to the new "town center" model that HUD is 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 often times the primary use is more non-residential 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.

APPRAISALS

Question. In my office, we often hear concerns from prospective buyers, builders, lenders, and other industry representatives about serious problems with the FHA appraisal process. Are you receiving complaints at your agency? Are you concerned with the current appraisal environment?

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 some 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.

Question. Also, what appeal process, if any, exists when homes that were appraised far below or above another appraisal? What appeal process exists for builders or lenders when an appraiser values a home well below the price offered and under contract?

Answer. The mechanism for an appraisal appeal is known as a reconsideration of value. A reconsideration of value is a request to the FHA Roster appraiser to reconsider the analysis and conclusions of his or her appraisal based on information that was not presented on the appraisal report, but was relevant to the appraisal and available to the appraiser in the normal course of business as of the effective date of the appraisal.

Only the lender's underwriter can request a reconsideration of value from the FHA Roster appraiser. Information regarding comparable sales, listings, or under-contract-of-sale properties that the appraiser did not cite in the appraisal report but was available to the appraiser in the normal course of business as of the effective date of the appraisal are appropriate data to be provided to the appraiser. The appraiser is required to consider the data provided by the lender. The reconsideration may or may not result in an amended report. The underwriter should include all

relevant data with the request for the reconsideration. Information available at the time of the appraisal but not provided in the original report should be in the appraiser's file.

TREBLE DAMAGES

Question. The GSEs and other major mortgage investors require lenders to repurchase loans that do not meet their underwriting or servicing guidelines. FHA has additional authority, under the False Claims Act and the National Housing Act to assess treble damages on lenders for origination and servicing violations. Clearly, lenders who commit fraud should be penalized and barred from participating in the FHA program. But for more routine mistakes, repurchases and indemnification exist as a remedy.

For large institutions, treble damages on enough loans would be a significant business cost, but for smaller lenders the impact is even greater if they have to pay three times the claim amount. Small, independent mortgage bankers are struggling with compliance business costs that they incur now because of increased industry regulation.

My concern is instances where lenders acted in good faith and there was no fraudulent activity. For some of the smaller lenders, the cost of simply defending themselves could be devastating. Can you tell us under what circumstances FHA would see itself using this more stringent authority rather than having lenders simply repurchase or indemnify loans?

Answer. FHA is an insurer; it does not own loans originated by FHA-approved lenders. Therefore, repurchase is not a means for resolving violations of FHA origination, underwriting, or servicing violations. In instances of material non-compliance, HUD often attempts to settle with the lender by obtaining an agreement from the lender to indemnify FHA against losses. Indemnification may also be compelled under HUD's Lender Insurance Program in response to violations of HUD's origination and/or underwriting requirements. Since 2010, FHA has pursued statutory authority to extend this indemnification authority to FHA-approved Direct Endorsement Lenders.

With respect to treble damages, section 536 of the National Housing Act (12 U.S.C. sections 1735f-14) authorizes HUD to impose a penalty in the amount of three times the amount of any insurance benefits claimed by the mortgagee for any mortgage where the servicer has failed to engage in loss mitigation in compliance with HUD's requirements. Imposing treble damages under this authority requires a demonstration that the lender has acted knowingly (demonstrated through evidence of actual or constructive knowledge) and that the misconduct is material. HUD regards treble damages as appropriate only for egregious violations of its requirements, and has not yet imposed treble damages for servicing violations.

The Department of Justice (DOJ) has authority under the False Claims Act to pursue treble damages for, inter alia, knowingly presenting or causing to be presented false claims to the Government or making false records to get a false claim paid. The False Claims Act is only employed where there is evidence of fraud.

While the size of the lender bears no relationship to the extent of its misconduct or, as a result, the amount of damages and penalties sought, both HUD and DOJ consider the lender's ability to pay in the context of settlement discussions.

Question. Has FHA considered how the indemnification policies and the penalty of treble damages impacts smaller lenders versus larger lenders?

Answer. When HUD's Mortgagee Review Board (MRB) is determining the appropriate penalty to impose upon FHA-approved lenders who have violated FHA's requirements, and when HUD's enforcement lawyers are negotiating settlements with lenders who have violated FHA's requirements, HUD consistently takes into consideration the lenders' abilities to pay the proposed penalties.

Question. How do you see FHA striking the right balance between fighting fraud while ensuring that honest lenders are not discouraged from participating in FHA programs? Does FHA have the authority to cease business with known bad actors?

Answer. HUD, along with DOJ, have powerful enforcement tools to wield against those attempting to defraud the Federal Government, but employs these only in cases where there is evidence of fraud or knowing and material violations of HUD's requirements. Moreover, HUD's enforcement procedures provide lenders with considerable due process. Lenders receive written notices of HUD's findings and the underlying basis for those findings. Lenders then have the opportunity to respond and, if appropriate, to resolve the issues through, inter alia, provision of mitigating information or an agreement to indemnify HUD against harms before any enforcement action is taken. It is only in those instances when the matter cannot be resolved without enforcement actions that the case is referred to HUD's Mortgagee Review

Board (MRB). HUD's MRB, after a thorough review of the violations and any preliminary responses from the lenders, issues a formal notice of its intent to pursue sanctions, if any, and provides additional opportunities for lenders to dispute and/or settle HUD's allegations. If the MRB determines that penalties are appropriate, HUD's enforcement lawyers initiate administrative proceedings, which enable lenders to dispute HUD's determinations before administrative law judges.

The substantial due process outlined above assures entities that abide by HUD rules that they will have sufficient opportunity to show that any actions that may cause concern do not rise to the level of fraud or knowing and material violations while still deterring bad actors with the threat of sanctions. If HUD obtains sufficient evidence of misconduct by a "bad actor," and that evidence warrants suspension or withdrawal of the lender's approval to participate in FHA's programs, HUD's MRB has the authority to suspend or withdraw the lender's FHA approval. Any such action by the MRB is subject to adjudication before administrative law judges and review by the Federal courts.

SUBCOMMITTEE RECESS

Senator MURRAY. But I appreciate your testimony, and your time, and your staff today. And with that, this hearing is recessed. Thank you.

Ms. GALANTE. Thank you very much.

[Whereupon, at 10:56 a.m., Thursday, March 8, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2013**

THURSDAY, MARCH 15, 2012

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

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

Present: Senators Murray, Lautenberg, Pryor, Collins, and Inouye.

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

STATEMENT OF HON. RAY LAHOOD, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

Today, we will hear testimony from Transportation Secretary Ray LaHood on the President's budget request for fiscal year 2013.

Mr. Secretary, welcome back to our subcommittee. It is always good to have you here. And just personally, congratulations on your son's safe return. We are all glad he is home; I am sure you are as well.

As we begin our work on next year's budget, there are encouraging signs that our economy is moving in the right direction. Although we are obviously not moving quickly enough for families that continue to struggle, and we certainly have a long way to go, the private sector has been adding jobs for almost 2 years, businesses are growing, confidence is up, and we seem to have stepped back from the precipice. That is encouraging, but to keep growing these improvements over time, we need a transportation system that supports job creation, fosters economic growth, is sustainable, and most importantly, is safe to use.

Unfortunately, today we have a transportation system that is riddled with bottlenecks, slowing down the movement of freight, and leading to higher costs for our businesses. We have a system that makes airline passengers suffer through flight delays and keeps commuters stuck in traffic jams instead of allowing them to get to work or get home for their families.

Independent assessments show us that the infrastructure of our country is falling behind and holding us back. All of these reports reach the same conclusion: That the need to invest in our transportation infrastructure is huge and needs to be done.

Many of us have seen the report card for America's infrastructure put together by the American Society of Civil Engineers. Their overall grade for our Nation's infrastructure is a "D," and their grade for roads is even more depressing, a "D-minus." Our Nation's rail network earned a paltry "C-minus," and transit only rates a "D."

Last year, the World Economic Forum ranked U.S. infrastructure 23rd in the world; 10 years ago, we were 6th. And without aggressive investment, I am very concerned about where we will be 10 years from now.

The U.S. Chamber of Commerce found that, given expected growth in population and trade, we need to invest an additional \$50 billion a year in our highway and public transportation system just to maintain current performance, and we need to double that number each year to improve performance.

Taken together, these assessments are alarming, and sadly the condition of our Nation's infrastructure comes at significant costs. On average, Americans now spend an extra \$400 per year on car maintenance as the result of driving on poor roads, money every family, I know, could put to better use. We spend an extra 4 billion hours a year sitting in our cars due to traffic congestion, burning through an almost extra 3 billion gallons of fuel in the process.

We have the world's worst air traffic congestion with delays that average twice as long as those in Europe. And freight delays have gotten so bad that bottlenecks cost the economy an estimated \$200 billion a year. And let us be clear, holding back on investing in transportation infrastructure does not actually save us money. It simply turns a budget deficit into an infrastructure deficit. In fact, kicking the can down the road will end up costing our Nation even more over the long term, and forces the next generation to pay to clean up our mess.

So we can invest now and lay down a strong foundation for long-term growth, or we can let the system continue to crumble and pay even more later. I think the choice is clear.

To address this problem, the President's budget request for next year proposes to reauthorize the service transportation programs at a funding level of \$476 billion over the next 6 years. This is a substantial increase over current funds.

The reauthorization proposal is very similar to the one the President included in his budget request last year, and like last year, I applaud the administration's effort to promote investment in our Nation's infrastructure. I am glad we are seeing progress on a reauthorization bill, but I am still very concerned about how we are going to move forward on financing transportation programs this coming year. We have significant challenges ahead of us.

The Appropriations Committee is now working under tight caps on discretionary spending set by the Budget Control Act, and unfortunately, the budget request does not offer a realistic picture of how to fund transportation under those caps. The President's budget, again, seeks to reclassify as mandatory spending at least \$4 bil-

lion in programs that have long been funded by this subcommittee. That request leaves a big hole this subcommittee will have to fill. In addition, there is a long way to go before a reauthorization bill is signed into law, and it is not yet clear what kind of package will be considered in the House.

This leaves us with a lot of questions for how we are going to sustain the Highway Trust Fund and fund transportation programs next year. Recent projections from both CBO (the Congressional Budget Office) and the administration show the Highway Trust Fund may not stay solvent throughout fiscal year 2013. And even though the Senate reauthorization bill would address this problem, no legislation is effective until it is enacted into law. In addition, until the reauthorization bill is completed, or until we see a full-year extension of the transportation program, we do not know what levels of contract authority there will be for next year.

For the past 3 years, I have been put in the position of writing appropriation acts without knowing the full-year levels of contract authority. I am prepared to do that again, but this is not how a program should be funded. We all know that State departments of transportation need a stable source of funding in order to build transportation infrastructure. They need predictability. They deserve better than a few months of funding at a time, and more than that, our commuters who are stuck in traffic and businesses trying to get their goods to market deserve a better transportation system.

Despite these concerns, I do want to take a minute to acknowledge some areas where the Department of Transportation (DOT) has made progress.

Not long ago, the En Route Automation Modernization (ERAM) program at the Federal Aviation Administration (FAA) fell years behind schedule, putting the agency's Next Generation Air Transportation System (NextGen) program at risk. For too long the agency was unwilling to work with its own air traffic controllers on getting ERAM back on track. The Department has come a long way. The program is under new management, stakeholders have a seat at the table, and it is achieving new milestones. In addition, the recent reorganization at the FAA has placed a stronger emphasis on the management of its technology programs. That was the right move to make.

In the area of highway safety, the Department has led a very public campaign to address distracted driving. This past week, Mr. Secretary, you announced a partnership with Consumer Reports aimed at getting young people to put down their phones while they are behind the wheel, which is an effort to save lives.

The Department has also raised the profile of rail transportation. It is a reliable, safe, and environmentally sound means of passenger and freight transportation. Building more roads and wider roads is not enough. We need to continue to make targeted rail investments to improve mobility in and between America's congested cities.

Mr. Secretary, these are some of the areas where your leadership has truly made a difference, and we thank you.

PREPARED STATEMENT

During this hearing, I look forward to discussing these issues and addressing some questions we have, but before turning this over to Senator Collins, I want to thank you for your efforts. As Secretary of Transportation, Mr. Secretary, you really have proven strong leadership for this agency, and you have always worked on a bipartisan basis, which is something we do not see often enough today. And I truly want to thank you for that.

With that, let me turn it over to my colleague, Senator Collins.
[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

The subcommittee will come to order. Today we will hear testimony from Transportation Secretary Ray LaHood on the President's budget request for fiscal year 2013.

Mr. Secretary, welcome back to the subcommittee. Thank you for being here.

And congratulations on your son's safe return. The past 2 months must have been a difficult time to say the least. I can only imagine what a relief it must be for you and your family.

As we begin our work on next year's budget, there are encouraging signs that our economy is moving in the right direction.

Although we aren't moving quickly enough for families that continue to struggle—and we certainly have a long way to go. The private sector has been adding jobs for almost 2 years. Businesses are growing, confidence is up, and we seem to have stepped back from the precipice.

This is encouraging. But to keep growing these improvements over time, we need a transportation system that supports job creation, fosters economic growth, is sustainable, and most importantly, is safe to use.

Unfortunately, today we have a transportation system that is riddled with bottlenecks, slowing down the movement of freight and leading to higher costs for businesses.

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The U.S. Chamber of Commerce found that, given expected growth in population and trade, we need to invest an additional \$50 billion a year in our highway and public transportation system just to maintain current performance. And we would need to double that number each year to improve performance.

Taken together, these assessments are alarming. And sadly, the condition of our Nation's infrastructure comes at a significant cost. On average, Americans now spend an extra \$400 per year on car maintenance as a result of driving on poor roads—money every family could be putting to better use. We spend an extra 4 billion hours a year sitting in our cars due to traffic congestion, burning through almost an extra 3 billion gallons of fuel in the process. We have the world's worst air traffic congestion, with delays that average twice as long as those in Europe. And freight delays have gotten so bad that bottlenecks cost the economy an estimated \$200 billion a year.

And let's be clear—holding back on investing in transportation infrastructure doesn't actually save us money. It simply turns a budget deficit into an infrastructure deficit.

In fact, kicking the can down the road will end up costing our Nation even more over the long term and forces the next generation to pay to clean up our mess. So

we can invest now and lay down a strong foundation for long-term growth, or we can let this system continue to crumble and pay even more later. I think the choice is clear.

THE DEPARTMENT OF TRANSPORTATION'S BUDGET PROPOSAL AND SAFETEA-LU

To address this problem, the President's budget request for next year proposes to reauthorize the surface transportation programs at a funding level of \$476 billion over the next 6 years. This is a substantial increase over current funding levels.

The reauthorization proposal is very similar to the one the President included in his budget request last year. And like last year, I applaud the administration's effort to promote investment in our Nation's infrastructure.

I am glad that we are seeing progress on a reauthorization bill, but I am still very concerned about how we are going to move forward on financing transportation programs this coming year. We have significant challenges ahead of us.

The Appropriations Committee is now working under tight caps on discretionary spending set by the Budget Control Act. And unfortunately, the budget request does not offer a realistic picture of how to fund transportation under those caps.

The President's budget again seeks to reclassify as mandatory spending at least \$4 billion in programs that have long been funded by this subcommittee. This request leaves a big hole that this subcommittee will have to fill.

In addition, there is a long way to go before a reauthorization bill is signed into law. It is not yet clear what kind of package will be considered on the House floor.

This leaves us with a lot of questions for how we are going to sustain the Highway Trust Fund and fund transportation programs next year.

Recent projections from both the Congressional Budget Office (CBO) and the administration show that the Highway Trust Fund may not stay solvent throughout fiscal year 2013. And even though the Senate reauthorization bill would address this problem, no legislation is effective until it is enacted into law.

In addition, until the reauthorization bill is completed—or until we see a full-year extension of the transportation programs—we do not know what levels of contract authority there will be for next year.

For the past 3 years, I've been put in the position of writing appropriations acts without knowing the full-year levels of contract authority.

I am prepared to do that work again, but this is not how our programs should be funded.

We all know that State departments of transportation need a stable source of funding in order to build transportation infrastructure. They need predictability. They deserve better than a few months of funding at a time. And more than that, commuters stuck in traffic and businesses trying to get their goods to market deserve a better transportation system.

ACCOMPLISHMENTS

Despite these concerns, I would like to take a minute to acknowledge some areas where the Department of Transportation has made progress.

Not long ago, the En Route Automation Modernization (ERAM) program at the Federal Aviation Administration (FAA) fell years behind schedule, putting the agency's Next Generation Air Transportation System (NextGen) program at risk.

For too long, the agency was unwilling to work with its own air traffic controllers on getting ERAM back on track. But the Department has come a long way. The program is under new management, stakeholders have a seat at the table, and it is achieving new milestones.

In addition, the recent re-organization at the FAA has placed a stronger emphasis on the management of its technology programs. This was the right move to make.

In the area of highway safety, the Department has led a very public campaign to address distracted driving. This past week, you announced a partnership with Consumer Reports aimed at getting young people to put down their phones while they are behind the wheel, an effort that will save lives.

The Department has also raised the profile of rail transportation. It is a reliable, safe, and environmentally sound means of passenger and freight transportation.

Building more roads and wider roads is not enough. We need to continue to make targeted rail investments to improve mobility in and between American's congested cities.

Mr. Secretary, these are some of the areas where your leadership has been making a difference.

CLOSING

During this hearing, I look forward to discussing these issues and addressing some other questions that I have.

But before turning this over to Senator Collins, I want to thank you for your efforts as Secretary of Transportation.

You provided strong leadership for the Department, and you have always worked on a bipartisan basis. Which is something we don't see often enough today.

I will now turn it over to my partner on the subcommittee, Senator Collins.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you, Chairman Murray. Your final comments echo my opening comments to the Secretary.

I too want to welcome Secretary LaHood and thank him for his very strong leadership. We used exactly the same terms at the Department and for working so closely with both sides of the aisle as we worked together to promote fiscally responsible investments in our Nation's transportation infrastructure. Like the chairman, I too am so relieved that your son, Sam, his wife, and other Americans are safely out of Egypt. I just cannot imagine what a difficult time that must have been for you, and we are so happy that he is safely home.

Transportation investments create jobs and establish the foundation for future economic growth, but it is equally important to our economic future that we rein in Federal spending and keep our national debt under control. The administration is proposing a \$74.5 billion budget for the DOT. That is approximately a 2-percent increase over fiscal year 2012.

This request helps insure that transportation investments keep pace with the latest advancements in technology and that Federal programs continue to promote innovation, and help meet the needs of our municipalities and States.

One of the most innovative DOT programs is the National Infrastructure Investments program, a nationally competitive program known as Transportation Investment Generating Economic Recovery (TIGER), and a program that Senator Murray and I have both strongly supported on a bipartisan basis. I am very pleased to see that the President's budget proposes \$500 million for this vital program. By design, TIGER has the flexibility to fund a wide range of transportation projects as long as they demonstrate national or regional significance to economic growth. Most TIGER projects are multimodal, multijurisdictional, or otherwise challenging to fund through existing programs. So this funding supports critical projects nationwide that otherwise would not be built and yet are absolutely essential to the communities that they are supporting.

An interesting component of TIGER is the eligibility to receive credit assistance through the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program. I am pleased to see that the administration is proposing to dramatically increase funding for the TIFIA program from \$122 million to \$500 million, and here is why. On average a TIFIA loan allows every dollar provided in Federal funding to leverage approximately \$30 in additional transportation infrastructure investment. That is a great ratio, a great return, and it is the kind of innovation in infrastructure finance that we need to produce a greater return to taxpayers, particularly at this time of budget constraint.

In addition to innovative programs, this budget makes investments in several important technology improvements. The Federal Aviation Administration (FAA) is in the middle of undertaking the Next Generation Air Transportation System (NextGen), the largest transformation of the air traffic control system ever, and the budget provides more than \$1 billion to advance this technology.

Through the use of satellite surveillance, new methods of routing pilots, planes, and landing procedures, NextGen will change how Americans fly. It will ensure that the traveling public is flying in an even safer and more efficient airspace. But obviously, any program of this type is not without its challenges.

For investments in our roads and bridges, the budget includes \$42.6 billion for the Federal Highway Administration; \$2.7 billion more than last year. I appreciate the inclusion of reform proposals designed to simplify the program structure and improve upon project delivery to bring the benefits of these investments to the public sooner. These investments and reforms will help modernize our highway system, and as Senator Murray has pointed out, that is long overdue and much needed.

I also look forward to working closely with the administration to urge States to pass stronger distracted driving laws to avoid tragic accidents, and to ensure that traffic fatality numbers continue dropping from current historic lows.

I share the administration's belief that investment in transportation is critical to our economy. We must balance this commitment, however, with other pressing needs. I was, and am, disappointed to see that the budget continues to request a substantial investment for high-speed rail at a time when too many of our roadways and bridges are crumbling, and require billions of dollars in investments.

The continuation of a multibillion dollar commitment to high-speed rail is particularly troubling in light of our ongoing battle to control deficits, and the endless spiraling costs of high-speed rail projects. The map is very clear that the challenges that we are facing, Highway Trust Fund revenues and balances over the next 6 years, support approximately \$260 billion in spending, and the budget request implies a 6-year surface transportation reauthorization that spends \$476 billion out of a trust fund that is projected to be insolvent some time in the next fiscal year.

[The referenced map was not available at press time.]

Congress and the administration must work together. I know the Secretary said that numerous times, to come up with a better, more solvent plan for investing in our transportation system.

PREPARED STATEMENT

I look forward to working with the Secretary and his able staff, and with you, Chairman Murray, and the rest of the subcommittee members as we consider this budget request.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Thank you, Chairman Murray. Welcome, Secretary LaHood. I appreciate your strong leadership at the Department of Transportation (DOT) and look forward to

continuing to work together to promote fiscally responsible investments in our Nation's transportation infrastructure. And I am so relieved that your son, Sam, and other Americans are now safely out of Egypt.

Transportation investments create jobs and establish the foundation for future growth. But it is equally important to our economic future that we rein in Federal spending and keep our national debt under control.

The administration is proposing a \$74.5 billion budget for DOT, a 2-percent increase over fiscal year 2012. This request helps ensure that transportation investments keep pace with the latest advancements in technology and that Federal programs continue to promote innovation.

One of the most innovative DOT programs is the National Infrastructure Investments program, a nationally competitive program that we all know as Transportation Investment Generating Economic Recovery (TIGER). I am pleased to see the \$500 million request for this vital program. By design, TIGER has the flexibility to fund a wide range of transportation projects so long as they demonstrate national or regional significance to economic growth. Most TIGER projects are multimodal, multijurisdictional, or otherwise challenging to fund through existing programs so this funding supports critical projects nationwide that would not otherwise be built.

An interesting component of TIGER is the eligibility to receive credit assistance through the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program. I am pleased to see that the administration is proposing to dramatically increase funding for TIFIA from \$122 million to \$500 million. On average, a TIFIA loan allows every \$1 provided in Federal appropriations to leverage approximately \$30 in additional transportation infrastructure investment. That's the kind of innovation in infrastructure finance that we need to produce a greater return for taxpayers.

In addition to innovative programs, this budget makes investments in several important technology improvements. The Federal Aviation Administration (FAA) is in the middle of undertaking the Next Generation Air Transportation System (NextGen), the largest transformation of air traffic control ever, and the budget provides over \$1 billion to advance the NextGen air traffic control technology. Through the use of satellite surveillance, new methods of routing pilots, planes, and landing procedures, NextGen will change how Americans fly. It will ensure the traveling public is flying in an even safer and more efficient airspace.

For investments in our roadways and bridges, the budget includes \$42.6 billion for the Federal Highway Administration, \$2.7 billion more than fiscal year 2012. I appreciate the inclusion of reform proposals designed to simplify the program structure, and improve upon project delivery to bring the benefits of highway and bridge investments to the public sooner. These investments and reforms will help modernize our highway system. I also look forward to working with the administration to urge States to pass distracted drivers' law to avoid tragic accidents and to ensure that traffic fatality numbers continue dropping from current historic lows.

I share the administration's belief that investment in transportation is critical to our economy. We must balance this commitment, however, with other pressing needs. I was disappointed to see the budget continue to request a substantial investment for high-speed rail, at a time when too many of our roadways and bridges are crumbling and require billions of dollars in investment.

The continuation of a multibillion dollar high-speed rail proposal is particularly troubling in light of our ongoing battle to control deficits. This budget request implies a 6-year surface transportation reauthorization that spends \$476 billion out of a trust fund that is projected to be insolvent sometime in the next fiscal year. While I share the administration's commitment to investing in our future transportation needs, responsible budgeting is just as important as responsible investing. The math here is clear: Highway Trust Fund revenues and balances over the next 6 years support approximately \$260 billion in spending. Congress and the administration must work together to come up with a better plan for investing in our transportation system while reducing an unsustainable deficit.

I look forward to working with you, Chairman Murray, as we consider the Department's fiscal year 2013 budget request.

Senator MURRAY. Thank you very much, Senator Collins.
Senator Pryor, do you have an opening remark?

PREPARED STATEMENT

Senator PRYOR. Thank you, Madam Chairman.
I do, but I will just submit it for the record. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MARK PRYOR

Thank you, Chairman Murray and Ranking Member Collins for holding this hearing. I look forward to visiting with Secretary LaHood and learning more about the administration's budget proposal for fiscal year 2013.

Given the fiscal predicament facing our country, it's obvious that Congress will have to make some difficult decisions and identify areas to save taxpayer dollars and reduce spending at the Department of Transportation (DOT) and every other agency. No agency should consider itself exempt from needing to find savings. However, we must not back down from making the needed investments in areas that will foster short-term and long-term economic growth as well as areas that protect consumers. If we fail to make such investments, the United States will struggle to compete in the global market in the coming years.

As a strong proponent in developing transportation infrastructure, I'm hopeful Congress and the administration can agree on a bold commitment to meeting the transportation demands of the coming years by addressing our aging infrastructure while also carrying a vision for the future. I also hope we can come together and find reasonable and creative ways to finance these investments. We cannot afford to continue to pile up deficits while pretending revenues are matching our needs and investments.

Another high priority for me is continuing to improve upon highway, automobile, and motor carrier safety. I hope to work closely with the administration and my colleagues in this area. We've made great strides in recent years, and we must continue to improve.

As this subcommittee reviews the fiscal year 2013 budget request for the DOT, I look forward to working with the chair and ranking member to ensure that taxpayer dollars are spent responsibly.

Again, I thank Senators Murray and Collins for conducting this hearing. I look forward to Secretary LaHood's testimony and look forward to discussing the fiscal year 2013 budget request.

Senator MURRAY. Okay. Thank you very much.

We will then turn it over to Secretary LaHood for your testimony this morning.

Again, thanks for joining us.

SUMMARY STATEMENT OF HON. RAY LAHOOD

Mr. LAHOOD. Thank you, Madam Chair, and Ranking Member Collins, and Senator Pryor.

Really good to be with all of you today. This is really a hallelujah day for transportation for what you all did yesterday.

I think passing a bipartisan bill reflects the very best values of the Senate. Transportation has always been bipartisan, and you all proved it again yesterday. I hope the House will take your lead. I hope you have shined a bright light on the House that the values that people really understand in America about transportation were carried out yesterday.

And big, big congratulations to Senator Boxer and Senator Inhofe. They worked very hard together, they really did, but without the votes of all of you, it would not have happened. I just cannot say enough about the way the Senate worked in a very bipartisan way and in a way that has always been about the way that transportation has been passed. The bill was a significant step forward, and as I said, we hope the House will move swiftly in a similar bipartisan fashion.

As you know, transportation has been in the news a lot, and that is a good thing. There is good news on the horizon and reason for optimism. For one thing, after 23 short-term extensions, Congress finally passed, and President Obama signed, the FAA bill. Presi-

dent Obama has detailed his vision for a long-term transportation infrastructure bill, part of his Blueprint for an America Built to Last. All of this would be fully paid for.

President Obama is proposing to cap the funding for overseas contingency operations over the next 10 years, thereby saving hundreds of billions of dollars. We would use half of these savings to pay down the debt, and the other half on a 6-year transportation bill, which lets us do some nation-building right here at home.

The facts are that our budget proposal has three broad goals: Creating jobs by investing in infrastructure, spurring innovation across our transportation system, and maintaining a laser focus on safety, which is our number one job. Let me take these goals one at a time.

REBUILDING OUR INFRASTRUCTURE

An America Built to Last needs a strong transportation infrastructure. The President's budget will improve America's highways, railways, and transit networks, and will continue to ensure that these systems are safe.

The President's fiscal year 2013 budget request, includes \$42.6 billion to fund roads and bridges, \$305 billion is proposed over 6 years for this program. This is a 34-percent increase over the previous authorization for roads and bridges.

Investing in our transit systems is another critical need. The President's budget includes \$10.8 billion in fiscal year 2013; a total of \$108 billion is proposed over 6 years for transit, a 105-percent increase. It will prioritize projects that rebuild and rehabilitate existing transit systems, and include an important new \$45 million transit safety program. That program was actually included in the bill that passed yesterday, and we are grateful that transit safety is now being addressed.

The President's budget provides \$2.5 billion in 2013 as a part of \$45 billion 6-year investment to continue support of intercity passenger rail, including the construction of a national highway rail network.

I consider it unfortunate that the fiscal year 2012 appropriation bill did not include funding for high-speed rail. You know that I am very passionate about that. You know that I made a plea to all of you for that funding. This is a very high priority. It is a very big vision that the President has for the next generation of transportation for the next generation in America.

For the more than \$10 billion in grant funding that Congress has provided, we received applications from 39 States, the District of Columbia, and Amtrak. These applications, which were well in excess of available funding, were for funding and corridors in every region of the country. Our current high-speed rail funds are being used in five key corridors around the Nation. These corridors will create new choices for travelers, reduce national dependence on oil, foster livability in urban and rural communities, and promote economic expansion across the Nation.

INNOVATION

As we rebuild, we can no longer afford to continue operating our transportation system the same way we did 50 years ago with out-

dated processes and financial tools that were made for yesterday's economy. The President's 2013 budget will invest in research and technologies that our children and grandchildren will use to bolster America's economic competitiveness.

The Federal Aviation Administration is in the midst of the largest transformation of the air traffic control system ever undertaken. The 2013 President's budget request includes \$15.2 billion to support FAA programs. More than \$1 billion of these funds will be used to advance the modernization of our air traffic control through NextGen, the next generation of air traffic control technology.

Our proposal will also elevate the vital role research plays in transportation decisionmaking by moving the Research and Innovation Technology Administration (RITA) into the Secretary's office, into a position as an Assistant Secretary for Research and Technology. This change will provide a prominent, centralized focus on research and technology, which will improve collaboration and coordination among the Department's operating administrations through research programs.

SAFETY

Keeping our transportation system safe will always be our top priority. Consistent with this commitment, President Obama has proposed a record level of investment in safety. The President's proposal will provide \$981 million in fiscal year 2013, and \$7.5 billion over the next 6 years to the National Highway Traffic Safety Administration (NHTSA) to promote seatbelt use, get drunk drivers off the road, and reduce distracted driving. This will help ensure that traffic fatality numbers continue dropping from current historic lows.

We will also double the investment in highway safety infrastructure funding by providing \$2.5 billion in fiscal year 2013 and \$17 billion over 6 years to Federal Highway Administration safety construction programs. The budget will also dedicate \$580 million in fiscal year 2013 and \$4.8 billion over 6 years to the Federal Motor Carrier Safety Administration (FMCSA). These dollars will ensure that commercial trucks and bus companies maintain high operational standards, and that our dedicated safety professionals can get high-risk trucks and bus companies, and their drivers, off our roadways.

Our safety focus must also include the transportation of hazardous materials in our network of pipelines. The President's budget requests \$276 million for Pipeline and Hazardous Material Safety Administration. These resources will ensure that families, communities, and the environment are unharmed by the transportation of the very chemicals and fuels on which our economy relies.

PREPARED STATEMENT

And so with that, again, thank you for all your leadership from this subcommittee of the Committee on Appropriations, particularly when it comes to transportation. We have had a great partnership and we look forward to continuing that.

[The statement follows:]

PREPARED STATEMENT OF HON. RAY LAHOOD

Chairman Murray, Ranking Member Collins, and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the administration's fiscal year 2013 budget request for the U.S. Department of Transportation. The President is requesting \$74 billion for Transportation in fiscal year 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 6-year transportation jobs plan that puts people back to work rebuilding our airports, roadways, railways, and transit systems. The fiscal year 2013 President’s budget reflects the first year of this bold 6-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 fiscal year 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 6-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 fiscal year 2013 budget requests \$2.5 billion, the first year of \$47 billion over 6 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.

We are already putting America on track toward 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 fiscal year 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.

As shown in the attached map, our current high-speed rail funds are being used in five key corridors. We are focusing on projects offering the greatest public benefits, as well as those projects ready for implementation. The funding that has been provided to date will be used to improve upon 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 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 and comfortable locomotives and passenger cars.

[The referenced map follows:]

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 fiscal year 2013 budget requests \$700 million, the first year of nearly \$20 billion over 6 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 fiscal year 2013 budget requests \$500 million, the first year of \$3 billion over 6 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 healthcare. 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 fiscal year 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 fiscal year 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 fiscal year 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 decisionmaking on UAS implementation issues.

The fiscal year 2013 budget also proposes to elevate the vital role research plays in transportation decisionmaking 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 fiscal year 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 fiscal year 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 fiscal year 2013 budget requests \$981 million, the first year of \$7.5 billion over 6 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 fiscal year 2013 and \$330 million over 6 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 6 years. The fiscal year 2013 budget requests \$2.5 billion, the first year of \$17 billion over 6 years, for Federal Highway Administration (FHWA) safety construction programs. The fiscal year 2013 budget also requests \$580 million, the first year of \$4.8 billion over 6 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 4 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 fiscal year 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 fiscal year 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 fiscal year 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.

Senator MURRAY. Mr. Secretary, thank you very much for all your work on this, again.

Senator LAUTENBERG. I'd like to make a statement, if I might.

Senator MURRAY. Turn your mike on.

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. My wife never tells me I need a mike.

I'd like to congratulate Secretary LaHood for a job well done. A lot of hard work, but it is a little bit of a salutary moment. One, is to congratulate him for the return of his son from——

Mr. LAHOOD. Thank you.

Senator LAUTENBERG [continuing]. Incarceration in Egypt.

Two, to say to our colleague from Maine that we wish her well in the impending marriage and soon engagement.

Senator MURRAY. I decided not to embarrass her and bring that up.

Senator LAUTENBERG. I ask that my full statement be put in the record.

Senator MURRAY. Without objection. Absolutely.

[The referenced statement was not submitted.]

VOW TO HIRE HEROES ACT

Senator MURRAY. Again, Secretary, thank you.

I wanted to ask you about one of my highest priorities, which is to help veterans transition from their life in the military into civilian employment.

Last year, we passed the VOW To Hire Heroes Act, which includes a number of provisions to help our servicemembers as they transition, plan for employment after they leave the military, to help translate their military skills into the private sector, and to gain civilian work experience.

I understand that the Federal Motor Carrier Safety Administration, the Department of Defense (DOD), and the teamsters have worked together on a commercial driver's license (CDL) veterans-to-work initiative to help our military drivers transition to the commercial motor carrier industry.

And as part of the effort, FMCSA issued a regulation last May that gave State DMVs (departments of motor vehicles) the ability to streamline their licensing process for veterans so that they can meet certain comparable standards of experience.

Today, we only have 15 States that have taken advantage of this new authority. Three are in the process, and 8 States have declined, the remainder are still talking about it.

Can you share with us any knowledge that you have about why States are not taking advantage of that new authority?

Mr. LAHOOD. Senator, first of all, let me thank you for your leadership on Veterans Affairs, and the interest that you have taken in veterans.

We are working to increase opportunities for veterans. In May 2011, our Federal Motor Carrier group promulgated a new regulation that does allow States to waive the skills test portion of the CDL licensing process for military personnel who can prove 2 years of safe driving experience. The regulation makes it easier for current military CMV (commercial motor vehicle) drivers to become licensed through a civilian DMV. We are working with the American Association of Motor Vehicle Administration and the U.S. Army to implement the regulation.

But your statistics are correct. We need to continue to work with States on this to promote this program, to make sure that States understand that this opportunity exists. At this time, 15 States now offer the waivers of the skills test for military personnel who do provide proof of safe driving experience. Three States are moving to make this happen, 8 States have declined, and 25 other States have not indicated their plans.

I want to commit to you that we will continue. We have great partners at the States on these safety programs, and our motor carrier organization provides money to States for other safety. And we want to, we are going to step up on this, we really are.

Senator MURRAY. Okay. I really appreciate that, and if you can find out for us, is it a barrier in those States? Is there something we do not see? Or is it just a matter of them not knowing the program is available?

Mr. LAHOOD. Yes, I think it is probably a matter of whether we have not been as aggressive as we can be, and really going to legislative leaders, and Governors, and asking them to really make this available. I think we can do better.

[The information follows:]

The Federal Motor Carrier Safety Administration (FMCSA) administers the commercial driver's license (CDL) program nationwide by assuring that State Driver Licensing Agencies (SDLA) are in compliance with Federal statutes and Agency regulations. Each State has authority to issue CDLs following guidelines (Regulations) promulgated by FMCSA. These guidelines represent the minimum States must do. States may implement additional requirements on drivers seeking a CDL.

In May 2011, FMCSA promulgated a new rule (49 CFR 383.77) that allows SDLAs to waive the CDL skills test for military personnel with 2 years of safe driving experience. The latest survey shows that 17 States now offer to waive the skills test; 5 States are in the process of instituting this option; and 8 States have opted not to take advantage of the option at this time. The remaining 21 States have not responded to queries of their status. The States that do not offer the waiver explain that for a variety of reasons, this is not a priority. These reasons include that instituting the waiver may require State legislative revisions or instituting new administrative and technical processes. In some cases, States provide budgetary and personnel limitations as reasons for not implementing the provision.

When comparing the civilian equivalent of a CDL to the military heavy-duty truck license, the best comparison is the Army's 88M training, which both the Army and Marine Corps use to gain this qualification. FMCSA, in cooperation with the American Association of Motor Vehicle Administrators (AAMVA) and the U.S. Army Reserve Command's MPO, has developed a standardized process to make the transition from 88M qualification to a CDL less burdensome. A waiver form has been created that allows a State to validate the soldier, sailor, airman, or marine's safe driving record in the appropriate vehicle, supported by the signature of the soldier's commanding officer.

FMCSA is currently exploring additional opportunities to help servicemembers and veterans that operate or have operated a CMV in the military to get a CDL. These options include waiving the domicile rule requirement for military personnel (which would require an act of Congress) as well as designating the military as a third-party tester for the standardized CDL skills test.

Senator MURRAY. Yes, okay. Good. I know the Army has been a really great partner in that effort.

Mr. LAHOOD. Right.

Senator MURRAY. Is there any way we can expand that collaborative partnership that you have developed with the Army to help our other services?

Mr. LAHOOD. Maybe what I should do is try and meet with the Secretaries of the other armed services, and I will do that, and the

appointed secretaries and make them aware of this program. That is a good idea.

Senator MURRAY. Okay, great. I would really appreciate that, and certainly let me know if there is anything I can do to help—

Mr. LAHOOD. Thank you.

Senator MURRAY [continuing]. Help move that along. I would also encourage you to work with the Department of Labor and let them know what you are doing, as they have been involved with a lot.

Mr. LAHOOD. Good idea.

SAFETY FITNESS DETERMINATION

Senator MURRAY. Great. I appreciate that.

Since 2000, the National Transportation Safety Board (NTSB) has recommended that the FMCSA change its method of evaluating the safety and performance of carriers. And as a result, FMCSA began to implement its Comprehensive Safety and Accountability program, known as CSA, back in 2004.

The Safety Fitness Determination rulemaking is the cornerstone of that program, and the rule was initially scheduled to be finalized in 2009. It has been delayed repeatedly. Until the rule is finalized, FMCSA is still using the review system that NTSB believes is inadequate.

So I wanted to ask you when you expect to publish the Notice of Proposed Rulemaking (NPRM), and if you still intend to assess driver fitness, and what the plan and timetable is for that.

Mr. LAHOOD. This is, obviously, a part of our safety agenda. It is very important and our staff is working with our colleagues at Office of Management and Budget (OMB) to make sure that we get it right.

But for the record, I will get back to you and give you some clearer date on when we will be issuing the—

Senator MURRAY. Okay. So is the challenge at OMB at this point?

Mr. LAHOOD. The challenge is just working through this, and making sure we get it right, and working with our colleagues at the White House.

[The information follows:]

The Federal Motor Carrier Safety Administration (FMCSA) is preparing to publish a notice of proposed rulemaking (NPRM) later this year that will revise how the Agency determines the safety rating of motor carriers. This NPRM will incorporate a motor carrier's on-road safety performance and compliance data into the Agency's safety fitness determination (SFD) while continuing to use the findings from investigations that currently determine a carrier's safety rating. This will allow the Agency to incorporate for the first time data from more than 3.5 million annual roadside inspections into a motor carrier's safety rating and will ensure sustained safe performance by the motor carrier industry.

This rulemaking will only cover the safety ratings of carriers because FMCSA does not currently have explicit authority to include drivers. The Agency contends it has explicit authority to establish safety fitness provisions applicable to CMV "owners and operators" but it is not clear that these provisions expressly apply to drivers.

FMCSA provided technical drafting assistance to Congress in May 2011 that would clarify its authority to determine the safety fitness of commercial motor vehicle (CMV) drivers. The Senate included this provision in its surface transportation reauthorization bill that passed the Senate on April 24, 2012. Enacting the Senate provision would strengthen FMCSA's ability to identify high-risk commercial drivers and remove them from service.

Conceptually, a driver SFD would entail the Agency establishing an SFD standard through which it would rate a driver unfit based on a series of factors rather than waiting for the driver to be convicted of a disqualifying offense. This would allow the Agency the opportunity to look at a driver's overall safety and compliance history (violation rates, crashes, etc.) and determine that the driver's safety performance is poor enough to warrant a proposed SFD of "unfit."

This clarification would help the Agency address recommendations and concerns from the Government Accountability Office, the National Transportation Safety Board, and stakeholders.

Senator MURRAY. Okay. Senator Collins.

DISTRACTED DRIVING

Senator COLLINS. Thank you, Chairman.

Mr. Secretary, as I mentioned in my opening statement, you have demonstrated very strong leadership on the growing safety problem that is caused by distracted driving. In fact, I read one newspaper story that said you have been known to drive around Washington honking at drivers who are using their portable devices when they should be paying attention to the road ahead and behind them.

But the fact is, this is a very serious problem. Just last week in my home State of Maine, text messaging was the key factor in a crash that killed the driver and seriously injured her passenger. In 2009, hundreds of thousands of people were injured in crashes reported to involve some kind of distraction, and the proliferation of electronic devices is clearly contributing to this growing problem.

Could you explain to the subcommittee what the Department is doing through its budget to encourage greater public awareness of the dangers of distracted driving, and also, to urge States to pass distracted drivers laws?

Mr. LAHOOD. Thank you.

This is obviously something that is at the top of our safety agenda. When we started this campaign 3½ years ago, only 8 States had passed laws. Now 35 States plus the District of Columbia and Guam have passed laws. We need every State to pass a law.

In the past, in the Senate, there have been bills introduced about distracted driving, and I would encourage any of you. We would be happy to provide any of you technical assistance if you all wanted to introduce a bill on distracted driving. We get asked all the time, "Will there be a Federal law?" And I do not know that there have been any bills introduced this year in this session of Congress about distracted driving. So if we can be helpful on that, we certainly would be.

We are making progress. The money that is being proposed in the budget would be used for grants to States, similar to what we did with "Click It Or Ticket" so that law enforcement people can give tickets to people who are not wearing their seatbelts. As a result of two decades of Click It Or Ticket—good enforcement, good laws—86 percent of the people, the first thing they do when they get in their car is buckle up, but it has taken two decades, good laws, good enforcement, and some of these grants.

We would also similarly use some of the money to give to communities like we did for Hartford and Syracuse. We gave them each \$200,000. They matched it with \$100,000. They put police on street corners; that is how they used the money. They wrote tickets

for people that were on cell phones; and distracted driving went down. So that is one of the ways we would obviously raise awareness, use it for enforcement. When States want to pass laws, we have model legislation that we provide to them.

Senator COLLINS. Thank you for that update.

I think that kind of technical assistance and helping to share best practices that the Department has found is very helpful. And that is very impressive that the number of States with such laws has grown from 8 to 35.

Mr. LAHOOD. Yes.

HIGHWAY TRUST FUND INSOLVENCY

Senator COLLINS. And I think that is directly due to the fact that you have personally made it a priority, and put a real spotlight on it.

Let me turn now to the Highway Trust Fund. This is a very difficult issue. As you know, it has been operating at an unsustainable deficit since 2008, and has required approximately \$35 billion in transfers, and those are deficit finance transfers in order to keep the Fund solvent. CBO estimates that the Fund will, once again, be insolvent or bankrupt sometime in the next fiscal year.

The President's budget request really does nothing to fix that shortfall. In fact, you could argue that the spending increases will make matters worse, and yet we have such needs out there.

The administration's solution appears to be to transfer billions of dollars from the General Fund to the Highway Trust Fund every year. And it is my understanding that the budget estimates some \$17 billion in transfers will be required to keep the Trust Fund solvent through the end of fiscal year 2013.

Are you concerned that using the General Fund in this matter undermines the whole concept of the Highway Trust Fund?

Mr. LAHOOD. We know the Highway Trust Fund has been diminished because people are driving less and driving more fuel efficient cars. So the money is just not there for all the things we need to do in America.

The President this year in his budget proposed using the Highway Trust Funds, plus the funds that have been used for Iraq and Afghanistan, half of those funds as a means to pay for his budget. And I do want to send up a flare, and I want to send up a little alarm.

You all have done your work here. You passed a transportation bill. If the House does not pass a transportation bill, and passes another short-term extension, to be honest, in a State like yours, Senator Collins, where you have a very short construction window because of the weather in Maine, it will be very difficult for your State DOT to really do anything big in your State.

We need a transportation bill. We need the bipartisan bill that was passed in the Senate. If that happens, then we do have a big blueprint. In the absence of that, a short-term extension does no good for your State in terms of your ability to really fix up roads and bridges, and it is of great concern to us.

I know that really was not your question, but since you raised the issue of funding and the Highway Trust Fund, and the fact

that you all have passed a bipartisan bill, it is another way for us to emphasize this to the House of Representatives, this idea of passing just a short-term bill is not going to be good for States like Maine.

Senator COLLINS. I certainly concur with that. And the fact is, short-term extensions drive up the cost because contractors cannot plan. They cannot hire—

Mr. LAHOOD. That is right.

Senator COLLINS. Their employees and thus, they are forced to bid a higher amount.

Mr. LAHOOD. That is right.

Senator COLLINS. Because of the uncertainty. So that part, we agree on.

Senator MURRAY. Senator Pryor.

MARIAH'S LAW

Senator PRYOR. Thank you.

Mr. Secretary, let me thank you for being here, and begin with a thank you for helping the Conway Airport in Arkansas.

Mr. LAHOOD. Yes, sir.

Senator PRYOR. You helped move it out of a very congested area abutting a freeway and a neighborhood, where there have been some fatalities. Thank you for your help, and my understanding is that Conway is happy because they have moved from a 5-year plan down to a 3-year plan with your assistance, so thank you for that.

Also, thank you for mentioning bipartisanship. I think the way we all feel around here is that if Senator Boxer and Senator Inhofe can agree on important things, then we all ought to be able to agree on important things because they are at different ends of the spectrum, but they really provided a great example for us.

And one point of clarification is that in the bill that we passed yesterday, there is a provision on distracted driving called Mariah's Law, which sets up incentive programs for States to try to pass—

Mr. LAHOOD. Great. Thank you.

Senator PRYOR. More laws against distracted driving, so that may have missed your attention, but I hope you will look at that.

Mr. LAHOOD. Yes, thank you.

SEQUESTRATION

Senator PRYOR. And help us implement that.

Let me start with a question that I know you do not want to answer, you do not want to get into, and that is sequestration. If that does happen and there is sequestration, have you looked at what it will do to the Department of Transportation's programs?

Mr. LAHOOD. Let me ask our CFO (chief financial officer) just to comment on that.

Senator PRYOR. OK.

Mr. LAHOOD. Chris Bertram.

Senator PRYOR. Sure.

Mr. BERTRAM. We have not done a very detailed analysis of that yet. I think part of the question will have to be to what extent trust funded programs from the Highway and Aviation Trust Funds are affected as opposed to the General Fund, but we do not have a detailed analysis of that yet.

Senator PRYOR. Thank you for that. As you do that analysis, I think it would be helpful if you would get back with the subcommittee here and let us know what the ramifications—

Mr. LAHOOD. We will do that.

PRIORITY CORRIDORS

Senator PRYOR. Of sequestration might be.

Also, I have a question about future interstate corridors. I know that we are in a very difficult budget environment and difficult fiscal times for the Federal Government. However, I think it is critical that we continue to invest in our infrastructure that not only creates jobs now, but it is huge investment in the future.

I know that when you look at a map of the various interstate highway systems in the country, there are several highways that have not been built, several interstates have not been built. In these difficult budget times, I know that we do not really take care of that in the recently passed surface transportation bill, but as we look out to the future, do you have a recommendation for how we should fund these future significant corridors or these high-priority corridors to try to make sure that we actually do get them built, given the constraints that we have?

Mr. LAHOOD. I think the States need to get into a position of getting everything planned, get the environmental work done so that if there are resources available, they are in a position to come to the Department of Transportation.

This idea that we cannot continue to make progress without earmarks is not accurate. We got \$48 billion in the economic recovery plan. It came directly to DOT, and because of the great partnerships we had with States and transit districts and airports, we spent that in 2 years on 15,000 projects and put 65,000 people to work, and there were no earmarks.

So if States are ready with projects, and they have their environmental work done, and the money becomes available, we are ready to go and they are ready to go.

I think if nothing else, that is what one thing that the economic recovery, our stimulus money, proved—that we can do this without earmarks because of the great partnerships we have with the States.

VETERANS TO WORK

Senator PRYOR. Okay. Thank you for that.

Let me also follow up on something that Senator Murray said a few moments ago when she was talking about veterans.

Mr. LAHOOD. Yes.

Senator PRYOR. And obviously, that is important to you and you all have discussed the Veterans to Work Initiative.

We do something in our State that is not directly related to veterans, but could be, and it could be a national model, and that is the trucking industry has partnered with some community colleges to do some training. If someone finishes their training, and gets their CDL and gets a job, then part or maybe all of their tuition is forgiven to help them jumpstart their career.

We could very easily tailor that towards veterans, and it sounds very similar to what you are doing.

Mr. LAHOOD. Yes.

Senator PRYOR. If you are not aware of what they are doing in Arkansas, I would encourage your people to look at it.

Mr. LAHOOD. Yes.

Senator PRYOR. And see if it could apply, because really, that is a good example of a State and industry partnership.

Mr. LAHOOD. Yes.

Senator PRYOR. And you could fit the Federal Government, the VA (Department of Veterans Affairs), and everybody else in.

Mr. LAHOOD. Sure.

TIGER GRANTS

Senator PRYOR. It could really help a lot of our veterans.

I am really out of time here, so let me just ask if you have a timeframe on when you will release or announce this round of TIGER grants?

Mr. LAHOOD. Late May.

Senator PRYOR. Late May.

Mr. LAHOOD. Yes.

Senator PRYOR. So they are due about now.

Mr. LAHOOD. They are due next Monday.

Senator PRYOR. Okay. So late May we will know.

Mr. LAHOOD. Yes.

Senator PRYOR. Okay. Thank you, very much.

Mr. LAHOOD. Thank you for all of your leadership, Senator. It has been great to work with you, not only for the country, but for your State, and we look forward to doing that.

Senator PRYOR. Thank you.

Senator MURRAY. Thank you very much.

Senator Lautenberg.

AMTRAK GATEWAY TUNNEL

Senator LAUTENBERG. Thanks, Madam Chairman. And thanks again, Mr. Secretary.

Amtrak has proposed building the Gateway Tunnel under the Hudson River to increase high-speed rail and commuter rail capacity. The current tunnel is at capacity during rush hour and ridership is expected to double in the next two decades.

It is not unlike the development of the highway system being done in the early 1950s when the country had a population of 170 million. Now we have a population of 310 million and we are suffering from not having done the things that we should have done many years ago.

You have looked at this proposal many times. What impact might the Gateway Tunnel project have on mobility and the economy in the Northeast corridor?

Mr. LAHOOD. We are working with both New Jersey and New York. We know this tunnel is absolutely critical and we will continue our work.

Look, if this is the priority for the region, then it becomes a priority for us.

Senator LAUTENBERG. Mr. Secretary, do you see this tunnel in a larger context because what happens there in terms of rail service affects much of the country, much of the Atlantic coast. And it also

would get some over 20,000 cars a day off the highway. And so it is of national interest, whether it is convenience and reliability or whether it is better air and less dependence on foreign oil.

We have a situation in New Jersey where we have a 100-year-old bridge called the Portal Bridge. It is one of the few things in New Jersey that is older than I am. The bridge has persistent problems that delay trains and cause devastating ripple effects in the entire Northeast corridor (NEC).

What is the Administration's plan for helping to upgrade this important, critical bridge?

Mr. LAHOOD. The Department has funded about \$1.7 billion in NEC through the high-speed rail funds. The Portal Bridge replacement, \$38 million for the final design and the Moynihan Station Phase 1, \$83 million. Both projects are 100 percent obligated.

TRANSIT FUNDING

Senator LAUTENBERG. Public transportation use is approaching record levels. Yet, our friends in the House recently tried to eliminate dedicated funding for transit programs.

What impacts would commuters face if they prevail and had their way, and transit funding was not protected?

Mr. LAHOOD. Senator, one of the reasons that I said that that particular House bill was the worst House bill that I had seen in 35 years of public service is because it gutted transit. When gasoline prices go up, transit ridership goes up. We know gasoline prices are going up. Transit is the lifeblood of transportation for many people in America to get to work, to get to a doctor's appointment, to go to the grocery store.

And certainly in your area, which is a transportation-centric center of the world, transit is absolutely critical. We need a good, strong transit program to continue state of good repair, but also to innovate and create new opportunities.

NATIONAL RAIL PLAN

Senator LAUTENBERG. I agree with that. The number of jobs that could be created almost instantly is enormous, and the subsequent job opportunities for commutation and travel through the area represent an almost magic look at what could be.

My 2008 Amtrak law required DOT to complete a comprehensive national rail plan. The Surface Transportation Bill that the Senate approved this week was a good bill, bipartisan, excellent bill, really. Each side gave a little bit, and each side took a little bit. It really is a great move forward.

So the bill that the Senate approved this week further details the need for the plan. When might we see a final national rail plan from DOT?

Mr. LAHOOD. We are working on it and we will, for the record, get you a date certain when we will be complete.

[The information follows:]

The Federal Railroad Administration (FRA) published a Preliminary National Rail Plan (NRP) in October 2009 following the direction of Congress, and a subsequent update of the NRP was made in the September 2010 Progress Report. These documents—combined with the policies and funding levels described in the Adminis-

tration's fiscal year 2013 budget proposal and 6-year investment strategy—articulate the future of intercity passenger rail for America.

In October 2011, FRA submitted to Congress a Public Investment and Business Case for four major corridor programs that were funded through fiscal year 2010 appropriations (Los Angeles-San Francisco, Chicago-Detroit, Chicago-St. Louis, and Chicago-Iowa City). Consistent with requirements established in the fiscal year 2010 appropriations, these documents summarized the need for these investments, quantitatively and qualitatively assessed benefits and costs, and reviewed implementation and operating plans.

Since fiscal year 2009, State and Federal rail planning has progressed significantly as well as their experience with new rail development. The need to revise and update the NRP will be incorporated as the program matures. FRA continues to undertake a number of interrelated planning and analysis efforts—all of which include substantial engagement with our State partners and other stakeholders—that will result in further iterations of the NRP and related documents.

Senator LAUTENBERG. I would appreciate that. Thanks very much.

Mr. LAHOOD. Senator, I look forward to being with you on Monday. You and Senator Menendez, I think, were going to be together in Hoboken talking about the transportation bill and about transit.

Senator LAUTENBERG. Yes, I look forward to that.

The Secretary was in New Jersey yesterday, Madam Chairman and colleagues, at a funeral for a Congressman Donald Payne. And the place was overflowing with, yes, sadness, but also the fact that he was almost an icon in terms of being the first minority member of the House from New Jersey. And the Secretary was there and made a very good speech, and it was very helpful, and we thank you.

You are always welcome in New Jersey, and if you cannot get a ticket on the train, I know some people. Thank you.

FERRY SYSTEMS

Senator MURRAY. Thank you, Senator Lautenberg.

Mr. Secretary, when you came out and visited my home State of Washington, you saw and rode on our ferry system, and saw how essential it was to our transportation system. And you know that the Federal partnership that supports our ferry system is very important.

In the Senate transportation bill that we hope the House takes up, I worked to create a formula to really prioritize and target Federal funding to our Nation's largest ferry systems, and it requires enhanced coordination among the numerous DOT agencies and programs that support ferries. These changes, we believe, will help reduce administrative costs and improve the efficiency and effectiveness of our Federal investments.

I am going to continue working for a Federal program that will support our Nation's ferry systems, but you already have the authority to make improvements at DOT on coordination and data collection. And I wanted to ask you if you will work with me to make sure DOT is focused on that.

Mr. LAHOOD. The way the trains are important for the Northeast corridor, ferries are important for the Northwest, and we recognize that. And certainly the opportunity that you provided to me to see firsthand the importance of it—you have my commitment that we will make sure that the Northwest, and particularly the State of Washington, has the ability to deliver people around on ferries.

PASSENGER FACILITY CHARGES

Senator MURRAY. I appreciate that very much.

Another topic. Your budget request would cut airport grants drastically and focus the program only on general aviation and small commercial airports. To replace the grants that would have gone to the large and medium airports, you are asking Congress to increase the cap on passenger facility charges (PFCs).

This request, as you know, is the same one that you submitted last year. However, last year, Congress was still developing its bill to reauthorize the FAA. This year, we have enacted FAA reauthorization laws and it does not include an increase to the cap on PFCs.

So I wanted to ask you how you now propose paying for airport infrastructure when we do not have an increase to PFCs?

Mr. LAHOOD. I am going to let Chris just talk about this for a minute, because he has worked with OMB on this.

Mr. BERTRAM. Senator, our proposal would only take effect if there were a change in the PFC cap. So in the absence of a change in the PFC cap, we would propose to have the same funding level as we had last year, the baseline level for AIP (Airport Improvement Program).

Senator MURRAY. Okay. We have got to make sure airports can make capital investments, and airport grants and PFCs both play a really important role in that.

So as part of the next reauthorization bill, would you support allowing large and medium airports to voluntarily opt out of the airport grant program in order to increase their PFCs?

Mr. LAHOOD. We believe airports are a real economic engine for communities. They provide a lot of jobs, and obviously, we have to have modern airports. Airports need the ability to improve infrastructure and to build new facilities and to make sure they have the capability to continue, that planes can fly in and out safely. I certainly would be willing to work with all of you on that and also with airports.

NEXT GENERATION AIR TRANSPORTATION SYSTEM

Senator MURRAY. Okay. On another topic.

Your budget request includes over \$1 billion for NextGen, the effort to modernize our air traffic control system. For NextGen to work, each aircraft has to be equipped with compatible technology, as you well know. The FAA has mandated that aircraft be equipped with some of this technology by the end of the decade, but there is no guarantee that airlines will be able to meet that requirement.

The FAA reauthorization law allows DOT to set up a program to provide loan guarantees to support the equipage of aircraft with this NextGen technology.

Can you talk a little bit about what steps you have taken to explore setting up that program?

Mr. LAHOOD. We have had many, many meetings with our colleagues at the White House, particularly those on the economic team, about this. And we have involved the airlines in this also.

We recognize that the airlines are starting to come back. They are starting to be more financially viable. Many are actually start-

ing to make money, and we want to make sure that putting a requirement for this kind of technology in every airplane does not inhibit their ability to continue to make progress financially.

We are trying to figure out a way that we can be helpful with the funding, so that the airlines keep up with the progress we are making in putting the technology in the TRACONS (terminal radar approach control facilities). We have had a lot of meetings about this, and I think everybody recognizes that some way, shape or form we have to be helpful here to the airlines, at least in the early stages as this technology is being put in airplanes.

Senator MURRAY. Do you have all the legal authority you need as a Department to implement something to—

Mr. LAHOOD. Yes, I believe we do.

Senator MURRAY. Okay. I appreciate that.

Senator Collins.

REINCARNATED MOTOR CARRIERS

Senator COLLINS. Thank you, Madam Chairman.

Mr. Secretary, there are unscrupulous motor carriers that reregistered themselves under new identities in an effort to evade accountability for past poor safety practices.

So, one of the goals discussed in your budget is preventing these chameleon carriers from reentering the commercial motor carrier industry. However, only about 2 percent of new carriers each year are examined by FMCSA prior to entering the industry.

What are your plans to try to prevent these reincarnated bad actors from invading FMCSA enforcement action by reentering the industry as supposedly new carriers?

Mr. LAHOOD. I want to say that our administrator, Anne Ferro, has worked very hard on this. This is a very, very serious problem.

If safety is our number one priority, which it is, then it has to be safety in all modes including trucking and busing. We have motor coach carriers doing the same thing; put them out of business, and they slap another name up on the bus.

And so, what Anne has done is set up a taskforce where she gets all of the key people in the room, and they begin to track these companies, and make sure that they are not just putting another name up on the company so that they can continue to operate. And we are working very hard on this; it is a top priority.

We have a taskforce that works 24/7 to make sure that these companies do not operate.

Senator COLLINS. That is great to hear, and this is something where I believe the industries, whether the motor coach side or the commercial truckers, are very eager to work with you.

Mr. LAHOOD. They are.

Senator COLLINS. They do not want to see—

Mr. LAHOOD. They do not.

Senator COLLINS. Those bad actors on the road.

Mr. LAHOOD. You are absolutely right.

CONTRACT TOWERS

Senator COLLINS. Next, I would like to turn to another provision of the budget, which proposes an increase in the local share for the Contract Tower Cost-Sharing Program.

Under the budget proposal, the local share, which is currently capped at 20 percent, would increase to 50 percent. Now, that does help the Federal budget. It results in savings of about \$2 million. But I worry that smaller community airports will simply not have the funds to contribute more than the current 20 percent, and could potentially be forced to shut down operations.

As these changes were evaluated, were the impacts on smaller airports considered and included in your decisionmaking?

Mr. LAHOOD. Let me say that the fiscal year 2013 budget that the President proposed was released shortly before the FAA authorization. We need to get the two in sync here; we know how important these contract towers are, and we know that people have limited resources.

We will make sure that what we do comports with the idea that, number one, the contract towers are important. And number two, that we do not impede on their ability to really be able to continue these.

Senator COLLINS. Thank you.

Thank you, Madam Chairman.

Senator MURRAY. Thank you very much, and we have been joined by the distinguished chairman of our subcommittee. We are delighted to have him here.

Senator Inouye.

HONOLULU RAIL PROJECT

Senator INOUE. Thank you very much.

Mr. Secretary, I thank you for your request of \$250 million for the city and county of Honolulu rail project, and I understand that this was the single largest request in the New Starts portfolio, and I thank you for your support of this important project for my State.

The city and county of Honolulu is currently involved, as you may be aware, in a Federal court case regarding the rail project. According to media reports in Hawaii, as part of the discovery process, emails from 2006 and 2009, written by Federal Transit Administration staffers, express concerns about the rail project.

So Mr. Secretary, I wonder whether you could share with us the Department of Transportation's stance on this project at this moment.

Mr. LAHOOD. Senator, the press reports, the emails that you make reference to were prior to my taking this position. And since I have taken this position, I have had the privilege of being with you in your State. We have talked about this project. You were kind enough to convene a meeting about this and other projects in Hawaii. And I want you to know that we are committed to this project.

This is an important project. This will deliver people all over the island. It is an important project, and at this point, we are going to continue to work through whatever issues need to be worked through. We are committed to this. We are committed to the money. We are committed to the project, and until we hear differently from others who are intimately involved in this, I see no reason why we will not go forward.

Senator INOUE. Mr. Secretary, thank you very much. On behalf of all the people of Honolulu, thank you.

Mr. LAHOOD. Thank you, sir.
 Senator INOUE. Thank you, Madam Chairman.

CHAMELEON CARRIERS

Senator MURRAY. Thank you, very much, Senator Inouye. I just wanted to quickly follow up on Senator Collins's discussion of the chameleon carriers. I know that you are looking at passenger and business, but freight is an important part of that. I know the GAO (Government Accountability Office) report identified that as a concern as well.

Are you going to include freight in that?

Mr. LAHOOD. We have really focused on motor coach and trucks, but we can take a look at freight, sure.

Senator MURRAY. Okay. The GAO identified that as a concern as well.

Mr. LAHOOD. Okay.

COLUMBIA RIVER CROSSING BRIDGE

Senator MURRAY. So I appreciate Senator Collins bringing that up.

I did want to ask you about a local project that you know a lot about as well—the Columbia River Crossing Bridge. I really appreciate your focus on that. It is so important to us in the Pacific Northwest. We have been working on it for years. It is a very complex project, but it is making progress and, in fact, in December, all the environmental planning work was completed. And last month our State Senate approved tolling authority that they need to help pay for it. So I am really pleased to see that your budget includes funding for it as well.

But I was concerned to see some recent press reports that there may be disagreements between your Department and other Federal agencies about the bridge's planned height, an issue everyone thought, frankly, was resolved years ago. And I wanted to ask you what kind of impact would changing the design of the Bridge at this point, as the Coast Guard is suggesting, have on this project?

Mr. LAHOOD. First of all, we are totally committed to the Columbia River Crossing. This is going to be a model for multimodal transportation. When you look at all the different modes of transportation that will be involved with that bridge, it truly is multimodal, and it is bi-State, it is bipartisan, it is about everything, any way you can describe it. It is a great project.

What I would like to suggest, Senator, is either you, or you and I convene a meeting, maybe in your office as soon as you want to do that to make sure everybody is on the same page, and that the deadlines are met.

Senator MURRAY. Okay.

Mr. LAHOOD. We have had a little hiccup here, but that is not going to stand in the way of this project moving forward. We are not going to let it stand in the way of that, but to make sure that everybody knows what the facts are.

Senator MURRAY. Right.

Mr. LAHOOD. What the deadlines are—if you want to convene a meeting, or if you want me to, or you and I both, we will get the Coast Guard, DOT, and everybody else that is involved in this, the

two States, and make sure everybody is on the same page so there are no delays.

Senator MURRAY. Okay. Very good. I would really like to do that, and perhaps the FAA as well, because if you make the bridge—
Mr. LAHOOD. Fine. Yes. Perfect.

BIOFUELS

Senator MURRAY [continuing]. Higher than the airport—it is a complex project. Okay. Very good. We will follow up with that.

Let me ask you about rising gas prices, an issue that everybody is concerned about. We are seeing increases in transit ridership, as she talked about a few moments ago. Gas prices are hurting everyone. And as you and I have talked about before, we need to look at all the alternatives to fossil fuels when it comes to cars, and buses, and ferries, and ships, and planes.

One of those alternatives is biodiesel, which is a cleaner burning, homegrown product that has huge potential. And I am working with the Department of Defense, major airlines, and a lot of people to expand the availability and market for biodiesel and other biofuels, working with agriculture and the biofuels industry. So I think there is a real capacity here.

And I wanted to ask you today, what do you think it will take to expand the use of biodiesel and other biofuels across the modes of transportation, so we can help expand and really get a market for these types of alternatives?

Mr. LAHOOD. As you know, this administration from the President to just about every Cabinet Secretary involved has worked very hard on fuel efficiency. You know where we have gotten.

By 2025, cars will get 54.5 miles per gallon. Every car manufacturer has signed off on this. They stood with the President when he made the announcement. This is an extraordinary opportunity for our country to set the very highest standards possible, and we have worked very closely with the Environmental Protection Agency to develop these standards.

On biodiesel and on the use of diesel, I think if Congress sends a loud message, you are not going to hear any heartburn or criticism from the administration. We need good partners on this and if you all send a message, I think it can be very helpful.

Senator MURRAY. Okay. Very good. Thank you very much, Mr. Secretary.

Mr. LAHOOD. Thank you.

Senator MURRAY. Senator Collins.

Senator COLLINS. Thank you, Madam Chairman. I am going to submit the vast majority of the rest of my questions for the record.

HIGH-SPEED RAIL

Senator COLLINS. I do just want to raise one more issue on high-speed rail, even though I hate to end on a note where we have different views when we agree on so much.

But one of the concerns that I have is whether States are going to be able to sustain the investment, and California is a perfect example of that.

The administration has put \$3 billion into the California High-Speed Rail Project. Recently the GAO has confirmed that the cost

of building the line is likely to increase from \$33 billion to \$98 billion. Now that is GAO's opinion, maybe there are other estimates, but that obviously is of great concern.

One of my concerns is if the Department makes this kind of investment of billions of dollars, and then the States prove to be unable to do their share, and the cost estimates go through the roof, then we have not accomplished the goal the administration wants. I would rather see that money spent on traditional mass transit, and roads, and bridges.

So my question is, what is the Department doing to ensure when you give money to a State for a project like this, that the State is going to be able to handle it financially?

Mr. LAHOOD. First of all, I think we are at the point in this country when the interstate system was started. It took 50 years to build it and it was not all built in 1 day. I guarantee you, when the interstate system was conceived, not everybody knew where all the lines were going to be, and certainly I do not think people knew where all the money was going to come from.

But I know this: All the money is not going to come from the Federal Government. You all have made that pretty clear in the money that you have not given us in our last request. But for the States that have received money, \$3 billion, the largest share, has gone to California, over \$2 billion to Illinois, and a lot on the Northeast corridor. And the States are our partners.

I just spent a week in California. I spent a lot of time with the legislature there. In some States what they have done is they have passed referendums and they have passed bonding issues. So that will be part of what the State will put up.

There are several foreign companies in California right now, meeting with Governor Brown on their ability to invest in high-speed rail. I think there will be three sources of funding for most States, particularly in California where we really will have high-speed rail. You will have trains going 200 miles an hour.

I think the funding sources will be: The Federal Government—we have made a good investment, as you mentioned, \$3 billion; the State will be putting money in through the selling of bonds; and I think there will be a lot of foreign investment. I really do. These foreign investments are there, foreign investors are there. They are meeting with the governor. They are talking about partnerships.

The same is true in Illinois. The Illinois governor is working with some foreign investors to make investments in the corridor in Illinois. And of course, our partners along the Northeast corridor have been Amtrak. Amtrak is doing very well. Ridership is up. They are making money. They have good leadership. Things have really improved. We just invested about \$1 billion in Amtrak for new cabs, for new cars, and to fix up some of the tracks.

So I do not see all the money coming from the Federal Government. There is not enough money. I do see other sources, but as an example, the people are way ahead, with all due respect, the people are way ahead of Washington on this. And what I mean by that is if you look at our TIGER guidance, we put in there up to \$100 million for high-speed rail. As of today, we have \$1 billion worth of requests for that \$100 million.

People in America want different forms of transportation. The next generation of transportation for America, for the next generation, is high-speed rail. It is what Americans want. Every State now has their interstate build out and where communities have good transit, they want their highways in a state of good repair. But they want passenger rail. They do, and that is not just Ray LaHood saying it, or President Obama saying it. It is what the people want, and that is reflected in the request that we have received for \$1 billion for up to \$100 million.

When Florida gave back their money, \$2.3 billion, we got \$10 billion worth of requests. This is not for Ray LaHood. It is not for you two, with all due respect. It is for our kids and grandkids.

What are we going to do for the next generation? What is the next generation of transportation? It is not the interstate. That is pretty much built out. It is not transit. We are doing well with transit. It is high-speed rail. That is what we need to leave to the next generation.

FREIGHT RAIL

Senator COLLINS. Thank you, Mr. Secretary, I know you feel very passionately about this issue.

Let me just end my comments today by thanking you and the Department for your commitment, which helped us save freight rail—

Mr. LAHOOD. Exactly.

Senator COLLINS [continuing]. In northern Maine. This was 233 miles of freight rail track that was going to be completely abandoned, cutting off the top half of my State. Through a partnership that involved a State bond, private sector investment, and the Federal funding, we were able to save that track.

And I want to report to you that it is going extremely well, that shipments are up, the track is being repaired so the service is so much better. And that was really a lifeblood that saved literally an estimated 1,700 jobs in a part of the State that really needed those jobs. So thank you.

Mr. LAHOOD. Look, Senator, it is thanks to you. I mean, we would not have known about that if you had not pointed it out to us at one of these hearings that we had. Both of you senators have been great leaders on transportation.

You are never going to hear a complaint from me or a criticism for either one of you for the work that you do, the partnership that we have had, in being in your States, and making sure that the transportation needs of your State are met, whatever they are. And we will continue to do that. It is very important.

You all have been great, great friends and great partners, and we could not do the work we do without great leadership from both of you.

Senator COLLINS. Thank you.

Senator MURRAY. Thank you, Mr. Secretary. We really appreciate all your work in this, your passion, your energy, and we will continue to work with you throughout this year to put the best bill we can together. So thank you very much.

Mr. LAHOOD. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. With that, I will remind my colleagues that the hearing record will be open for 1 additional week for questions.

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

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

AIR QUALITY—UNION STATION AND DIESEL EMISSIONS

Question. After the Chicago Tribune reported Metra passengers and workers were exposed to excessively high levels of diesel soot, Metra took quick action to improve air quality in their cars by installing cabin air filters, switching to cleaner burning diesel fuel, and employing automatic idle shut-offs on many of their engines. Amtrak worked to identify additional solutions for the area around the train station itself. These actions had an immediate effect, reducing pollution emissions by as much as 75 percent.

Are other transit agencies taking similar steps to assess and, if needed, improve the air quality at their stations and in their train cars?

Answer. While transit agencies across the country work with local governments to meet air quality goals of the Clean Air Act administered by the Environmental Protection Agency (EPA), these goals are not specifically tied to individual transit stations or within transit vehicles. EPA regulates emissions from diesel-hauled rail transit vehicles and locomotives. The Federal Railroad Administration (FRA) regulates most aspects of intercity, regional, commuter, and light (interurban) rail transit systems operating on the General Railroad System. This would include diesel-hauled commuter and interurban systems. Additionally, while the EPA maintains exhaust emission standards for heavy-duty highway compression-ignition engines and urban buses, these standards are focused on tailpipe emissions and not focused on specific environments such as the inside of a transit vehicle or station.

Federal agencies must ensure that their actions such as grants or approvals in nonattainment or maintenance areas conform to State air quality plans for achieving and maintaining air quality standards. Air quality factors are considered through the Department of Transportation (DOT) and metropolitan planning organization must comply with EPA's General Conformity or Transportation Conformity regulations, as applicable.

EPA's Office of Transportation and Air Quality's (OTAQ) mission is to reconcile the transportation sector with the environment by advancing clean fuels and technology, and working to promote more livable communities. OTAQ is responsible for carrying out laws to control air pollution from motor vehicles, including their engines, and fuels. Mobile sources include: Cars and light trucks, large trucks and buses, farm and construction equipment, lawn and garden equipment, marine engines, aircraft, and locomotives. OTAQ's activities include: Characterizing emissions from mobile sources and related fuels; developing programs for their control, including assessment of the status of control technology and in-use vehicle emissions; carrying out a regulatory compliance program, in coordination with the EPA Office of Enforcement and Compliance Assurance, to ensure adherence of mobile sources to standards; fostering the development of State Motor Vehicle Emissions Inspection and Maintenance Programs; and implementing programs for the integration of clean-fueled vehicles into the market.

Question. Have any studies been conducted to assess which transit agencies and stations are most in need of taking corrective steps to improve air quality for their passengers and transit workers?

Answer. To our knowledge no specific study or synthesis report has been compiled specifically documenting transit agency stations in need of taking corrective steps to improve air quality specifically for transit passengers or transit employees. Within current operational environments, it is not unusual to detect a slight odor of diesel exhaust inside the one or two passenger cars directly behind the locomotive, inside diesel-hauled interurban trains, and on station platforms where such platforms are protected from breezes and other natural air circulation. This usually passes naturally once the vehicle is at speed or a few moments after the vehicle has departed the station. Operations in tunnels, covered stations and other below-grade configurations may exacerbate this issue.

While the Federal Transit Administration (FTA) does sponsor research centered on reducing transit emissions through advanced and innovative technologies, there

is no specific research targeting the passenger environment in vehicles and on station platforms. Further, there are currently no transit industry standards or FTA Requirements that address air quality specifically for passengers.

Question. How can DOT help improve the air quality in diesel powered trains and around train stations?

Answer. On a continuing basis, DOT, through its various modal administrations and programs, works with State and local communities to address air quality. FTA specifically has targeted its Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) program and its Clean Fuels program grant funds to transit agencies in both attainment and non-attainment areas to help them adopt new technologies that reduce vehicle idle time, overall energy usage, and harmful emissions. For example, using fiscal year 2010 TIGGER funding, FTA provided Metra, through the Illinois Department of Transportation, Federal funds to modify locomotives by implementing innovative automatic shut-down/start-up systems to reduce unnecessary idle time.

FAA AIRPORT PRIVATIZATION PROGRAM—MIDWAY AND OTHER AIRPORTS

Question. The recent Federal Aviation Administration (FAA) reauthorization doubled the number of airports that can apply for the FAA Airport Privatization Pilot Program from 5 to 10. The privatization of such large publicly held assets naturally raises questions regarding responsible stewardship, particularly during times of economic uncertainty.

Midway Airport

Midway Airport in Chicago is currently the only large-hub airport in this privatization program. How much total Federal funding has gone to build and maintain Midway Airport?

Answer. Since 1982, Chicago's Midway Airport has received a total of \$378,350,793 in Federal Airport Improvement Program (AIP) funds under the Airport and Airway Improvement Act of 1982.

Question. How much Federal funding would the City of Chicago need to repay if it were successfully privatized under the program and FAA did not use their authority to exempt repayment of previously received Federal grants?

Answer. Since 1982, Chicago's Midway Airport has received a total of \$378,350,793 in Federal Airport Improvement Program funds under the Airport and Airway Improvement Act of 1982. If a private operator is selected for the airport, it may apply for an exemption under the FAA's Airport Privatization Pilot Program. At that time, FAA will evaluate the application for exemption.

Question. What other large hub airports have expressed interest in the privatization program?

Answer. To date, no other large hub airport has approached FAA with a formal request to participate in the program. From time to time, we do receive informal inquiries from airports.

Other Airports

Question. Puerto Rico is currently soliciting bids to sell or lease Luis Muñoz Marín International Airport. How much total Federal funding has gone to build and maintain this airport?

Answer. Since 1982, Puerto Rico's San Juan Luis Muñoz Marín International Airport has received a total of \$180,353,147 in Federal Airport Improvement Program funds under the Airport and Airway Improvement Act of 1982.

Question. How much Federal funding would Puerto Rico need to repay if it were successfully privatized under the program and FAA did not use their authority to exempt repayment of previously received Federal grants?

Answer. Since 1982, Puerto Rico's San Juan Airport has received a total of \$180,353,147 in Federal Airport Improvement Program funds under the Airport and Airway Improvement Act of 1982. If a private operator is selected for the airport, it may apply for an exemption under the FAA's Airport Privatization Pilot Program. At that time, FAA will evaluate the application for exemption.

If an airport is required to repay Federal funding, what would DOT do with those funds?

Answer. The existing privatization statute does not have any specific direction on how repayments are to be handled. In the 16 years that the airport privatization program has been in effect, no repayments have been required. Repayments would be handled on a case-by-case basis.

Question. Does DOT believe there are sufficient public interest protections in the current Airport Privatization Pilot Program law and regulations?

Answer. The statute and regulation creating the FAA Airport Privatization Pilot Program (Program) specify how FAA evaluates the competencies of a proposed private operator. The FAA will not grant a part 139 airport operating certificate to a private operator that is unable to demonstrate the ability to meet or exceed existing airport operating requirements and standards. The FAA must also be satisfied, under the Program, with the private operator's plans to maintain, modernize and improve the airport, including its 5-year capital improvement plan. The Program also requires the FAA to find that the public sponsor undertook a process consistent with aeronautical users' interests, including consultation, limitations on fees, rights to object to the sponsor's planned use of proceeds, and impact on general aviation users, and that the private operator's plans with respect to aeronautical users are also consistent with their interests under the Program. Further, pursuant to the Program, the FAA must find that the privatization transaction will not abrogate any collective bargaining agreement that covers airport employees and that is in effect on the date of the transaction. In addition, the FAA must find that operations of the privatized airport will not be interrupted in the event of bankruptcy. Finally, all airports that have accepted Federal grants, regardless of public or private ownership, must meet the same grant assurance and safety requirements.

GENERAL HIGHWAY PRIVATIZATION

Question. A 2008 Government Accountability Office (GAO) report was critical of highway privatization deals. The report recommended several actions for Congress and the administration. Specifically, GAO recommended Congress require the Secretary of Transportation to develop and submit objective criteria for identifying national public interests in highway public-private partnerships.

Does DOT currently have the legal authority to develop public interest criteria for highway public-private partnerships?

What additional legal authority does DOT need to develop public interest criteria to ensure national public interests are protected in future highway public-private partnerships?

What action is DOT taking now to ensure that national interests are considered in proposed highway public-private partnerships like the Ohio Turnpike?

Answer. DOT does not have any statutory authority to require States to use any particular public interest criteria when determining whether and how to pursue a public-private partnership (P3) for highway infrastructure development. However, section 1534 of Public Law 112-141 Moving Ahead for Progress in the 21st Century Act (MAP-21) directs the Department to develop and post information on best practices in P3s, including "policies and techniques to ensure that the interests of the traveling public and State and local governments are protected" in any P3 agreement. That section also allows DOT to provide technical assistance to a State, public transportation agency, or other public official "in analyzing whether the use of a public-private partnership would provide value compared with traditional public delivery methods" if requested to do so. DOT is currently working to implement this provision and could provide such technical assistance for the Ohio Turnpike if requested to do so.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

EMERGENCY RELIEF FUND

Question. Secretary LaHood, I want to thank you and your whole Department for all of the help and support you have provided to the State of Vermont in the wake of Hurricane Irene's devastation last August. I am amazed at how quickly the engineers and construction crews have rebuilt roads, bridges, and rail lines that were completely washed away just a few months ago. I'm especially grateful that we were able to get the Federal Highway Administration (FHWA) the additional Emergency Relief (ER) funding that the States need and the flexibility to grant waivers lifting the State cap and emergency-operations deadline. I really appreciate you granting of these waivers, which have been crucial to Vermont's rebuilding efforts.

What is the current status of the Emergency Relief Fund? Do you anticipate needing more than the statutory \$100 million in ER funding in fiscal year 2013 to deal with the backlog? How do you plan to cover potential shortfalls as Vermont and other States continue to request funding as they rebuild from past disasters?

Answer. FHWA is authorized \$100 million annually in Emergency Relief funds. In addition, the Consolidated and Further Continuing Appropriations Act, 2012 (Public Law 112-55) provided a one-time general fund appropriation of \$1.662 billion. As of July 31, 2012, FHWA had a balance of \$197,573,131.79 in ER funds from

both the annual funds and the one-time funds. A large portion of this balance is the result of FHWA's more aggressive review of unobligated ER balances that States have been holding for work that is complete. Since January of this year, FHWA has recovered over \$200,000,000 in unneeded ER funds for completed events that resided in State Department of Transportation (DOT) accounts. These funds can now be used to cover expenditures for other events.

In addition, FHWA has \$19,000,000 in Public Law 107-117 and Public Law 107-206 funds which were appropriated for damages associated with 9/11. These funds are still needed to complete roadway infrastructure work when the reconstruction of the World Trade Center site is completed.

FHWA also has a balance of \$40,776,019.62 of Fiscal Year 1990 Supplemental Appropriations (Public Law 101-130), which were appropriated for the Loma Prieta Earthquake and are no longer needed. Since the funds were specifically appropriated for the Loma Prieta Earthquake, they cannot be used for other events.

In October 2012, FHWA anticipates asking field offices for their 2013 obligation needs beyond the funding they have in hand.

The available funding is sufficient to cover immediate needs. However, a major disaster in the late summer or fall of this year could impact our ability to respond to that event along with previous events.

FHWA will continue to review unobligated balances and redistribute ER funding as necessary to maximize available ER resources.

RESTORING AMTRAK SERVICE TO MONTREAL

Question. Secretary LaHood, Vermont used to have cross-border Amtrak service along the old Montrealer line between Washington, DC, and Montreal, Quebec. Passenger rail access to Montreal went away in 1995, though, when St. Albans, Vermont, became the terminus for Amtrak's new Vermonter train.

The State of Vermont is very interested in reestablishing Amtrak service to Montreal—and our Governor, Peter Shumlin, has made it one of his administration's top priorities.

One of the major obstacles to cross-border travel today is passenger security screening, and I am pleased that easing the burdens of cross-border train travel is a goal of the recently announced Beyond the Border Initiative with Canada.

With other trains already operating across the Northern Border in New York State and Washington State, I know it can be done. We just need help and support from Amtrak and U.S. Customs and Border Protection to make it happen.

Will you work with me, the State of Vermont, the Department of Homeland Security, Amtrak, and the Canadians to explore reestablishing passenger train service to Montreal and finding reasonable solutions to the passenger screening issue?

Answer. DOT stands ready to support the improvement of existing rail corridors and the development of new rail corridors where markets exist. The development of such services is driven by the State and regional plans for intercity passenger rail. Vermont's initial planning efforts to extend intercity passenger rail service through the State and on to Montreal has focused on the cross-border and customs requirements of the proposed service. Those issues are the subject of the United States-Canada Transportation Border Working Group (TBWG), which includes United States and Canadian transportation agencies as well as Federal Railroad Administration (FRA), the Department of Homeland Security, U.S. Customs and Border Protection, State and provincial governments, and other relevant agencies. The TBWG's passenger rail subcommittee, as well as other interested parties such as Amtrak, met on April 17-18, 2012, to address cross-border transportation issues including security and customs procedures that would affect service to Montreal. FRA will continue fully engaging with the TBWG, Congress, and other stakeholders to address these important issues.

When Vermont's planning process advances to the next stage, we're prepared to provide technical assistance where necessary for their full Service Development Plan (SDP). The SDP process includes the analysis of a multitude of technical, financial, and policy considerations unique to the corridor and a completed SPD will be a critical next step to securing Federal funding, should additional funds become available, or identifying State and other funding resources to build the service.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

PIPELINE SAFETY

Question. When will the Department of Transportation (DOT) begin verifying pressure testing records and requiring pressure testing of grandfathered pipelines

that were never tested, as required by the recently enacted Pipeline Safety legislation?

Answer. On April 13, 2012, the Pipeline and Hazardous Materials Safety Administration (PHMSA) published a notice (72 FR 22387) to inform the public of the agency's intention to modify its information collection requirements. This information collection modification, which will be reflected in gas transmission annual reports, will allow PHMSA to collect operator pressure test information. Further, the operator pressure test information will be used to support proposed rulemaking (ANPRM—August 25, 2011) (76 FR 5308) relating to removal of the grandfather clause.

Question. About 50 percent of pipeline miles, including a majority of the oldest and highest risk lines, cannot be inspected using “smart pigs” due to the design of the pipelines themselves. What is your Department doing to develop a better smart pig, capable of inspecting more pipeline miles?

Answer. Many pipelines cannot be “smart-pigged” using current in-line inspection technology. Assessing the integrity of these pipelines requires new, innovative solutions and technologies. PHMSA is actively promoting increased development of smart pig technology through Research and Development (R&D) projects that are typically co-sponsored with industry; PHMSA is neither structured nor funded to independently develop smart pig equipment.

On July 18 and 19, 2012, PHMSA hosted a public R&D forum to identify technology gaps in addressing the key technical challenges facing pipeline integrity assurance. The forum was to allow public, Government, and industry pipeline stakeholders to develop a consensus on the technical gaps and challenges for future government-led research. R&D forums like this one, allow the Government to learn what research projects are already underway by other stakeholders. At these forums participants discuss which projects deserve Government funding by analyzing and prioritizing the research project plans. This helps ensure PHMSA does not direct funding towards a project that is already being paid for or that is not beneficial to its mission. The national research agenda coming out of these types of events is aligned with the needs of the pipeline safety mission, makes use of the best available knowledge and expertise, and considers stakeholder perspectives.

Question. The President's fiscal year 2013 budget request proposes a significant increase in pipeline inspectors. Please describe how these inspectors will likely increase safety.

Answer. In fiscal year 2013 PHMSA requested additional inspection and enforcement staff to successfully implement the Pipeline Safety Reform initiative. Additional personnel will be used to help determine the safety and fitness for service of pipelines. PHMSA will continue to raise the bar on the safety of the Nation's pipeline infrastructure, making sure that companies comply with the critical safety rules that protect people and the environment from potential dangers.

In 2011, Secretary LaHood issued a national Call to Action for all stakeholders to address the need for repair, rehabilitation, and replacement of high-risk pipeline facilities transporting hazardous liquids and flammable gases through American communities and environmentally sensitive areas. PHMSA is working with State regulatory communities, rate-setters, and the pipeline industry to establish remediation programs for these high-risk pipelines. Additional inspection and enforcement staff members are needed to assure these facilities practice good risk analysis and aggressively apply integrity management principles until these pipelines are repaired or replaced.

Further, the Nation is experiencing a boom in development of unconventional energy resources, i.e., gas shales and oil plays throughout the country. Along with swift commercial development of these resources, pipelines are being constructed at an increasingly rapid pace to transport the oil and gas from the source to processing facilities. More inspectors are needed to assure these pipeline facilities are safely constructed and in accordance with applicable standards and regulatory requirements.

FEDERAL AVIATION ADMINISTRATION

Question. According to the Congressional Research Service, 36 percent of Airport Improvement Program dollars go to airports without commercial service. However, more than 99 percent of travelers fly commercial. Do you think this is the right balance of funding priorities in this time of shrinking budgets?

Would you support a higher percentage of Airport Improvement discretionary funding going to improving the safety and facilities of airports that most Americans use?

Answer. The goal of the Airport Improvement Program (AIP) is to maintain and improve the Nation's airport system. AIP funds are awarded (based on national priorities) to different-sized airports so they can address critical airport safety, capacity, and security projects.

General Aviation airports provide the national airport system with specialized services like emergency medical services, aerial firefighting, and law enforcement and border control. However, they do not have access to airport development funding such as passenger facilities charges and the bonds market that are otherwise available to airports with commercial service.

The FAA-issued study, General Aviation Airports: A National Asset (May 2012), provides additional information on the Nation's general aviation airports. A copy of the study can be accessed at http://www.faa.gov/airports/planning_capacity/ga_study/.

LOS ANGELES SUBWAY SYSTEM

Question. The people of Los Angeles want rapid construction of their subway system, and no one that has experienced LA traffic can blame them. What can and should the Federal Transit Administration and Los Angeles do to get the two subway projects seeking full funding grant agreements in fiscal year 2013 prepared to execute that agreement?

Answer. FTA has been very supportive of the two projects, including recommending the Regional Connector project for \$31 million and the Westside Subway Extension project for \$50 million in the President's fiscal year 2013 budget to help advance the projects through preliminary engineering and final design. Additionally, in response to their transmittal of a Letter of Interest, the Department invited the Los Angeles County Metropolitan Transportation Authority (LACMTA) to submit an application for a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the Westside Subway Extension project.

Before the two projects will be ready for Full Funding Grant Agreements (FFGAs), they must complete engineering and design, obtain firm funding commitments for all non-New Starts funding sources, and obtain a satisfactory rating from FTA under the statutory evaluation criteria. Currently the financial plan submitted by LACMTA assumes an extension of the Measure R half-cent sales tax that will be placed on the upcoming November election ballot and approved by voters. This vote would need to occur and be successful, or the financial plan would need to be revised to demonstrate other available and committed resources, before FTA could move forward with the FFGAs.

Question. Last year DOT invited the Westside Subway to the Sea to file its final TIFIA loan application, which should lead to loan term negotiations. What is the status of this loan?

Answer. The Westside Subway to the Sea project is a major transit investment that is expected to improve mobility and connectivity in the city of Los Angeles. Recognizing these and other important benefits, DOT invited the project sponsor to apply for TIFIA financing in response to the fiscal year 2011 TIFIA Notice of Funding Availability (NOFA). As with other major projects, there are a number of milestones that the project sponsor, the Los Angeles County Metropolitan Transportation Authority (LACMTA), needs to reach in order to move toward closure on a TIFIA financing. The environmental review of the project was finalized with the record of decision date of August 9, 2012. In addition, the project is advancing through the Federal Transit Administration (FTA) New Starts program with the eventual aim of financing the project in part through a full funding grant agreement. It is our understanding that with the progress that has been made in these areas, LACMTA plans to submit a TIFIA loan application for the project in the fall. When DOT receives the loan application the TIFIA office will commence its review of the application including a comprehensive credit evaluation of the project.

Question. "America Fast Forward" is a proposal to build transit more rapidly using subsidized bonding and low interest lending. The Transportation-HUD Subcommittee has increased the size of the TIFIA and Transportation Investment Generating Economic Recovery (TIGER) TIFIA lending programs in recent years to grant your Department more than three times the lending authority it had just a few years ago. Do you agree that expanding the TIFIA program has been an important step in implementing America Fast Forward?

Answer. In recent years national demand for TIFIA credit assistance has been overwhelming. The increased funding for TIFIA provided in Moving Ahead for Progress in the 21st Century Act (MAP-21) will enable the Department to provide credit assistance to significantly more projects.

HIGH-SPEED RAIL

Question. Will you direct someone within your office to serve as the full-time point person, trouble shooter, and leader of the Department's high-speed rail effort full-time?

Answer. FRA has organized its grant project development and delivery office into geographic teams with a leader of each of its nine regions spanning the United States. This regional lead manages oversight efforts for projects and acts as single, centralized point of contact for State officials and other stakeholders. In turn, each regional lead coordinates an FRA team composed of project managers, engineers, environmental specialists, grant managers, attorneys, and other experts. Together these regional teams used a risk-based approach to track project progress, provide grantee technical assistance, and conduct grant monitoring and oversight efforts.

For the California HSR project in particular, FRA has recently hired a Senior Executive Service-level Project Manager, who has been designated as DOT's senior point-person on high-speed rail issues to oversee the California High-Speed Rail project on a full-time basis.

FUEL ECONOMY LABELS

Question. The fiscal year 2012 Transportation-HUD Senate Report directed the Department of Transportation to develop fuel economy labels for medium-duty vans and pickup trucks like the Ford F-250 within 3 model years. Small businesses—often in the construction business—buy many of these types of vehicle. But the business owner has no way to calculate the fuel costs of various models until this sticker is added to these vehicles. What is the National Highway Traffic Safety Administration doing to comply with this subcommittee's direction that these labels be required within 3 years?

Answer. NHTSA is currently focused on completing the final rulemaking for the Corporate Average Fuel Economy (CAFE) standards for model year 2017–2025 vehicles. On July 29, 2011, President Obama announced plans for these rules and charged NHTSA and the Environmental Protection Agency with developing these rules. The two agencies issued a proposal last November, have held numerous public hearings around the country, and are working to complete the rulemaking. NHTSA is devoting all focus and energy to finalize this presidential priority rulemaking as expeditiously as possible. After the conclusion of this important rulemaking effort, the agency will determine the timing and resources needed to address the committee's concerns about fuel economy labels for medium trucks and pick-ups.

TRUCK SAFETY

Question. A few years ago I wrote to your Department supporting mandatory use of electronic onboard recorders to enforce hours of service limits on truck drivers. Some of my constituents have been killed by tired truck drivers who were falsifying paper records. I learned there is almost no enforcement to prevent this kind of hours of service violation, and it is believed to be widespread.

At the time, the Department of Transportation said that the electronic onboard recorders were too expensive. I understand that the Department has proposed a draft regulation to require these recorders in some cases, but costs remains an issue.

My staff informs me that there is now an iPhone application that can perform all of the key functions of an electronic onboard recorder at no substantial cost.

What is DOT doing to consider this technology in its rulemaking?

Answer. FMCSA is committed to the development of electronic logging device technical specifications focused on hours of service compliance, and fulfilling all of the requirements included in MAP-21. The Agency does not believe the technical specifications it is currently considering would preclude the use of low-cost innovative approaches to electronic logging, such as smart phones, provided such devices have a means of meeting the MAP-21 requirement concerning electronic communications between the device and the commercial motor vehicle to ensure accurate date, time, and location information the beginning and end of driving time periods, i.e., integral synchronization of the device with the commercial motor vehicle.

FMCSA acknowledges that an electronic logging device mandate would impose nearly \$2 billion in costs on the commercial motor vehicle (CMV) industry. This estimate is based on the Agency's Regulatory Impact Analysis (RIA) for the 2011 notice of proposed rulemaking (NPRM) in which the Agency estimated initial total costs of \$1.984 billion per year.

While the estimated costs are economically significant, the electronic logging device rulemaking would be considered cost-beneficial. The Agency estimated total

benefits of \$2.699 billion resulting in an annual net benefit of \$715 million. A significant portion of these benefits would come from \$1.965 billion in annual paperwork reduction—a savings of \$688 per driver each year—due to drivers no longer completing and submitting logbooks. Therefore, FMCSA continues to believe that a mandate for electronic logging devices, potentially including smart phones with an hours-of-service application, would be cost-beneficial.

The Agency is currently preparing a supplemental NPRM that will re-examine the estimated costs and benefits (both paperwork savings and safety) associated with an electronic logging device mandate for carriers using handwritten records of duty status (RODS), and all of the MAP-21 requirements concerning this rulemaking.

QUESTION SUBMITTED BY SENATOR FRANK R. LAUTENBERG

Question. The Obama administration has yet to release a comprehensive National Rail Plan as required by my 2008 Amtrak law. This Amtrak law required the Department of Transportation (DOT) to develop a National Rail Plan in order to ensure that the administration was focused on the long-term needs of the intercity passenger rail system, and to make sure that Amtrak and States can successfully meet the public's increasing demand for passenger rail. The Plan should also ensure a cohesive, efficient, and optimized rail system for the movement of goods and people.

Yesterday, the Senate passed the surface transportation reauthorization, which further detailed the need for this Plan and clarified steps that the Department of Transportation should take to complete it. Additionally, the DOT Inspector General's office recently released a report and noted that DOT does not have an expected completion date for the entire plan.

When will we see a final National Rail Plan from DOT?

Answer. The Federal Railroad Administration (FRA) published a Preliminary National Rail Plan (NRP) in October 2009 following the direction of Congress, and a subsequent update of the NRP was made in the September 2010 Progress Report. These documents—combined with the policies and funding levels described in the administration's fiscal year 2013 budget proposal and 6-year investment strategy—articulate the future of intercity passenger rail for America.

In October 2011, FRA submitted to Congress a Public Investment and Business Case for four major corridor programs that were funded through fiscal year 2010 appropriations (Los Angeles-San Francisco, Chicago-Detroit, Chicago-St Louis, and Chicago-Iowa City). Consistent with requirements established in the fiscal year 2010 appropriations, these documents summarized the need for these investments, quantitatively and qualitatively assessed benefits and costs, and reviewed implementation and operating plans.

Since fiscal year 2009, State and Federal rail planning has progressed significantly as well as their experience with new rail development. The need to revise and update the NRP will be incorporated as the program matures. FRA continues to undertake a number of interrelated planning and analysis efforts—all of which include substantial engagement with our State partners and other stakeholders—that will result in further iterations of the NRP and related documents.

QUESTIONS SUBMITTED BY SENATOR SUSAN M. COLLINS

Question. The continued delay in issuing the final Notice of Proposed Rule Making (NPRM) for part 145 repair stations has created a growing problem for industry and a continued frustration for security regulatory agencies. Recognizing that much of the remaining work is dependent on the Transportation Security Administration (TSA), can you provide a sense of when the final NPRM will be issued? What will be the process for new certifications once the final NPRM is issued?

Answer. The public comment period for TSA's Proposed Aircraft Repair Station Security Rule closed February 19, 2010. The rules are intended to improve the security of maintenance and repair work conducted on aircraft and aircraft components at domestic and foreign repair stations certificated by the Federal Aviation Administration (FAA) (14 CFR part 145), thereby reducing the likelihood of a terrorist attack on civil aviation via a certified repair station. The NPRM proposed that repair stations (both foreign and domestic) would be required to adopt and carry out a standard security program developed by TSA and comply with TSA-issued security directives.

According to the Federal Register (July 7, 2011), the proposed rules were then in the final rulemaking stage. No additional information is available at this time as to when a final rule will be published.

Absent a final rule, current law prohibits FAA from certificating new foreign repair stations.

Upon the publication of the final rule, FAA intends to prioritize applications using the agency's Certification Services Oversight Process (CSOP).

Question. The Government Accountability Office (GAO) issued a report in 2009 with 47 recommendations addressing internal control weaknesses at the U.S. Merchant Marine Academy (USMMA). What progress has the U.S. Maritime Administration (MARAD) made in addressing GAO's recommendations to improve the Academy's internal controls?

Answer. GAO completed a follow-up audit of the USMMA, and issued report GAO-12-369, in July 2012. The report confirms closure of 32 recommendations, and acknowledged agency actions and progress addressing all of the recommendations. The report identified no new issues in the areas of concern identified in the 2009 audit report. GAO reports "the Academy and MARAD had made substantial progress in addressing weaknesses related to specific control activities by successfully implementing 32 of the 46 control deficiency-related recommendations identified in our 2009 report. For example, the corrective actions taken to improve controls were sufficient for us to conclude that all recommendations related to training vessel use, personal service acquisitions, accountability for Academy reserves, and NAFI camps and clinics using Academy facilities were successfully implemented." Additionally, the July 2012 GAO report identified one new recommendation for the USMMA concerning capital improvement management.

The report indicated a need for additional documentation or action for 14 remaining recommendations, and identified one recommendation as overarching, for examination after all other recommendations have been addressed and closed. In those areas where GAO subsequently determined that additional detail would need to be taken to fully address recommended actions, MARAD is working to complete the actions by December 31, 2012.

Question. While the FAA pursues new regulations overseeing the public and private use of unmanned aircraft, can you assure the modeling community that FAA will not promulgate new regulations for recreational use of model aircraft unless consistent with the language and intent of the Special Rule?

Answer. FAA can assure that any regulatory actions involving modelers will be consistent with the FAA Reauthorization and Modernization Act of 2012 regarding model aircraft.

Question. FMCSA's Compliance Safety Accountability (CSA) program counts crashes against motor carriers and truck drivers, including crashes they did not cause. For example, a wrong-way crash where a car is going the wrong direction on an interstate and runs into a truck could be counted against the truck by CSA. To better target those carriers and drivers accountable for crashes, I understand DOT is planning to screen accident reports for crashes that were unavoidable. I think that is extremely important; otherwise CSA, is unfairly labeling companies and their drivers guilty unless proven innocent. What is DOT's timetable for improving the CSA crash data and fully implementing a Crash Accountability program? Will you commit to making this change a priority?

Answer. The Federal Motor Carrier Safety Administration (FMCSA) agrees that better understanding a carrier's role in a crash is important. After discussions with stakeholders and taking an initial look at the use of police accident reports (PARs), FMCSA concluded that more work was necessary to develop a program that is fair, uniform and administratively feasible.

On July 23, 2012, FMCSA began conducting a study to research the safety benefits of adjusting crash weights in the Agency's Safety Measurement System (SMS) based on the carrier's role in the crash (i.e., preventability). FMCSA is considering modifying the Crash Indicator to weight crashes not only based on severity and timeliness but also on the role of the motor carrier in the crash. FMCSA designed the SMS to be continually improved as better data, information, and analysis become available. This research study is expected to conclude in the summer of 2013. Upon completion of the research study, FMCSA will publicize the results and announce next steps. FMCSA's Crash Weighting Research Plan can be found at http://csa.fmcsa.dot.gov/Documents/CrashWeightingResearchPlan_7-2012.pdf.

SMS is the Agency's system for identifying high-risk carriers, and it scores any carrier that meets our data sufficiency requirements. Currently, SMS uses all crashes within the Crash Indicator regardless of the role of the motor carrier in those crashes. This safety measurement area has proven to be one of the better predictors of future crash risk, irrespective of the cause of the crash. Recent analysis has demonstrated that SMS is an effective tool in identifying those carriers most likely to have crashes. FMCSA's data system identifies 525,000 active motor carriers; 200,000 of those carriers have sufficient data to be assessed in at least one of our

SMS Behavior Analysis and Safety Improvement Categories (BASIC). These 200,000 carriers have been involved in 92 percent of crashes reported to FMCSA.

Question. I understand DOT's analysis of the recently published Hours of Service rule demonstrates the estimated safety benefits of the changes to the rule do not outweigh the costs. In this difficult economy, it is important the Federal Government adequately consider the costs of regulatory changes. I am concerned the elements of the final rule may violate this important cost-benefit principle. I understand the American Trucking Association recently filed a petition with the U.S. Circuit Court of Appeals for the District of Columbia asking the court to review the new rule. How does the administration plan to address stakeholder concerns like those raised in the ATA's court petition?

Answer. In 2010 alone, large truck crashes resulted in 3,675 fatalities. In these large truck crashes, fatigue is a leading factor. In 2009, large truck crashes cost nearly \$20 billion in societal costs, including medical, insurance, infrastructure damage, lost wages, and productivity. These far-reaching impacts on the economy and taxpayers point to the need for policies that reduce the causes of truck accidents, including driver fatigue, in order to prevent needless tragedies on our highways.

FMCSA's 2011 final rule concerning hours of service contains estimated costs of \$470 million per year, which are less than half the costs in FMCSA's preliminary plan published in the notice of proposed rulemaking, which were estimated to be \$1 billion. This new safety rule will result in many public safety benefits, as well as benefits due to improved driver health. The final rule provides \$280 million in annual economic benefits from reducing crashes and \$350 million in economic benefits from improved driver health, totaling \$630 million in benefits. Based on FMCSA's regulatory impact analysis, the economic benefits significantly exceed the \$470 million annual costs of the rule.

Question. FAA has recently undertaken successful service-based programs including the surveillance broadcast services (SBS) for nationwide ADS-B deployment. In these times when budget constraints are the norm not the exception, what is FAA's view of expanding its use of fee for service contracts like SBS in areas including communication, navigation, surveillance, and automation?

Answer. Automatic Dependent Surveillance-Broadcast (ADS-B) services are procured by the FAA in the same way that power and telecommunications services are secured. The FAA owns the surveillance and flight data transmitted and received between aircraft and the ATC ground stations, but does not own the actual hardware and other components necessary to provide the services.

The FAA will consider performance-based service contracts as a potential method of procuring communication, navigation, surveillance, automation, and other services. The FAA's Acquisition Management System encourages the use of this method of contracting. As with all procurements, however, the acquisition strategy will be evaluated to determine the most cost-effective approach and the approach most likely to result in the best value for the agency and taxpayer. Should another major procurement be done utilizing the service-based approach, the agency will utilize lessons learned from the ADS-B and other performance based service acquisitions.

CONCLUSION OF HEARINGS

Senator MURRAY. And with that, this subcommittee is recessed until further notice.

[Whereupon, at 10:14 a.m., Thursday, March 15, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2013

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

NONDEPARTMENTAL WITNESSES

[The following testimonies were received by the Subcommittee on Transportation and Housing and Urban Development, and Related Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2013 budget request for programs within the subcommittee's jurisdiction.]

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

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 (TCUP) for fiscal year 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 fiscal year 2013 budget request and to support the goals of Executive Order 13592 to strengthen TCUs by funding the competitive HUD–TCU Program, at the fiscal year 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 United States 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 fiscal year 2011, Congress proposed level funding for TCU institutional operating grants and appropriated the communal pot of funds at the same level as fiscal year 2010. However, due to a spike in enrollments at the TCUs of over 1,660 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 per 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 data¹, 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-Tribal Colleges and Universities Program (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, North Dakota, 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.

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.

¹Source: U.S. Census Bureau, 2010 American Community Survey.

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 FISCAL YEAR 2013 BUDGET

The President’s fiscal year 2013 budget request provides no funding for the University Community Fund, which housed the TCU program and other Minority-Serving Institutions (MSI) 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 fiscal year 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.

PREPARED STATEMENT OF THE AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

Madam Chairwoman 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 2013 Transportation and 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 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. Failure to invest will force private sector busi-

nesses 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 capital investments and the growth of the industry. 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 today 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 FISCAL YEAR 2013 FUNDING REQUESTS

First, let me applaud the Senate for its work on passing the Moving Ahead for Progress in the 21st Century Act (MAP-21), with strong bipartisan support. It has been more than 2 years since the expiration of SAFETEA-LU, and we are excited to see progress being made toward a new authorization law. 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 fiscal year 2013 budget proposal, along with their proposed 6-year surface transportation authorization proposal, the President requests \$10.8 billion for public transportation programs in fiscal year 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 fiscal year 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 fiscal year 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.

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. 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. 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 Senate continues to support the New Starts program in MAP-21. The New Starts program is the primary source of Federal investment in the construction or expansion of heavy rail, light rail, commuter rail, and bus rapid transit projects. 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 seeks 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 that Congress equitably balance the various needs of the Nation's diverse bus systems, including those operated by multimodal agencies. 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.

MAP-21, the Senate authorization bill, creates a new structure for State of Good Repair grants with a new formula program (high intensity motorbus state of good repair) that focuses on systems that have a large number of bus rapid transit, express bus or other high intensity bus routes that may no longer qualify for fixed guideway formula funds. The Senate-passed version of MAP-21 also provides a new \$75 million general fund bus discretionary program authorization. The new program provides another source of assistance for bus capital needs beyond the new formula funds the bill makes available, with priority consideration provided to bus-only transit agencies.

Transit Research / Transit Cooperative Research Program (TCRP).—APTA strongly urges the subcommittee 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 fiscal year 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 over 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 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 discouraged that no funding was provided for PTC in fiscal year 2012. The RSIA requires that all passenger 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. APTA is urging Congress to significantly increase the authorized levels for implementation of mandated PTC systems.

Our Nation's commuter railroads 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 extensions of the implementation deadline in their respective surface transportation authorization bills. If enacted, the proposed extensions will assist publicly funded commuter railroads in meeting the mandate. However, substantial Federal funding is also necessary. Many commuter railroads are being forced to delay critical system safety state of good repair projects in order to install PTC by 2015. 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 demand for commuter rail service has also remained strong, with ridership on this mode increasing nationally by 2.5 percent in 2011, and six commuter rail systems seeing double digit increases in 2011. 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.

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 in many corridors. 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 United States to invest in its infrastructure as the efficient movement of people and goods is essential for sustained economic growth and recovery.

CONCLUSION

We thank the subcommittee for allowing us to share APTA's views on fiscal year 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.

PREPARED STATEMENT OF THE COALITION OF NORTHEASTERN GOVERNORS

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 fiscal year 2013 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 fiscal year 2013 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 Na-

tion'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 fiscal year 2012 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 fiscal year 2012 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 fiscal year 2013 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 3 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, DC will improve passenger travel.

Amtrak.—The Amtrak fiscal year 2013 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 fiscal year 2013 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 fiscal year 2013 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 fiscal year 2013 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 fiscal year 2012 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 fiscal year 2012 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.

PREPARED STATEMENT OF THE INSTITUTE OF MAKERS OF EXPLOSIVES

INTEREST OF THE INSTITUTE OF MAKERS OF EXPLOSIVES

The Institute of Makers of Explosives (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. Additionally, our products are distributed worldwide, while some explosives must be imported because they are not manufactured in the United States. The ability to transport and distribute these products safely and securely is critical to this industry.

BACKGROUND

The production and distribution of hazardous materials is a trillion-dollar industry that employs millions of Americans. While these materials contribute to America's quality of life, unless handled properly, personal injury or death, property damage, and environmental consequences can result. The threat of intentional misuse of these materials also factors into public concern. To protect against these outcomes, the Secretary of Transportation (Secretary) is charged under the Hazardous Materials Transportation Act (HMTA) to "provide adequate protection against the risks to life and property inherent in the transportation of hazardous materials in commerce by improving" regulation and enforcement.¹ The Secretary has delegated the HMTA authorities to various modal administrations, with primary regulatory authority resting in the Pipeline and Hazardous Materials Safety Administration (PHMSA).

PHMSA regulates hazardous material (hazmat) transportation so closely that it may not be moved any distance, via any mode of transportation unless a Department of Transportation (DOT) regulation, permit or approval authorizes the movement of a material. This blanket prohibition against transportation unless there is a specific DOT authorization for that transportation makes efficient consideration of such authorizations critical to the industries involved and the millions of workers they employ, as well as to the national defense, the security of our homeland, and the economy at large. Accordingly, how PHMSA performs its regulatory function has a significant impact on our industry.

SIGNIFICANCE OF PHMSA'S SPECIAL PERMITS AND APPROVALS PROGRAM TO THE
COMMERCIAL EXPLOSIVES INDUSTRY

The permits (designated "special permits") and approvals that PHMSA issues require applicants to establish that the function to be performed provides an equivalent or a greater level of safety than would be achieved by conforming to the agency's rules. They are not authorizations that allow someone to do something unsafe that otherwise would be prohibited under the rules. In both instances, the authorizations are issued to specifically identified individuals, in response to detailed applications (that are incorporated by reference in the authorizations), under criteria that are defined by or at least as stringent as the applicable regulations. These conditions can be changed by PHMSA at will, with limited rights for affected parties to petition for redress.

The process of applying for and maintaining such authorizations involves more paperwork and accountability than is required to petition for rule changes. Moreover, holders of these special authorizations face the constant risk of having them revoked, suspended, or modified. All special permits and many approvals also have expiration dates, requiring timely filing of applications for renewal. All require reporting of the holder's experience with the authorization so that PHMSA can properly evaluate the appropriateness of the authorization. The biggest difference between a special permit and an approval is that a special permit is an alternative means to comply with the regulations in domestic commerce, while an approval may apply to domestic or international transportation and can only be issued if there is a specific reference to the activity authorized by the approval in PHMSA's regulations.

Currently, there are thousands of special permits and approvals within the PHMSA program; many have been renewed without change for decades. Entire industries now find themselves regulated through special permits and approvals. The commercial explosives industry is a case in point. Billions of pounds of bulk explosive precursors and blasting agents are transported annually in the United States in vehicles operating under special permit. Without these permits, the industry would collapse. Likewise, the commercial explosives industry is uniquely dependent on PHMSA's approval authority. Manufacturers of commercial explosives, as opposed to other classes of hazardous materials, may not self-classify these products. The Hazardous Materials Regulations (HMR) require that new explosives be classified by PHMSA before they are offered for transport. These explosives classification approvals are the largest type of approval issued by the agency. Prior to approval, the HMR require that explosives be examined and tested by a laboratory approved by PHMSA. The testing criteria are based on standards recognized worldwide, and typically cost tens of thousands of dollars per application. The expense of this rigorous testing, both in terms of product sacrificed as well as the costs of the tests, is borne by the applicant.

¹49 U.S.C. Chapter 51.

Congress never intended special permits or approvals to be a long-term solution for the transportation innovations they authorize. The expectation is that proven special permits and approvals that have future, long-term use would be incorporated into the HMR. According to DOT, no deaths have been attributed to packages shipped under special permits or approvals for decades.² PHMSA's failure to incorporate proven special permits into its regulations now exposes many industries to the current whims of agency action.

PHMSA'S FISCAL YEAR 2013 BUDGET INCREASE REQUEST AND USER TAX ARE
UNJUSTIFIED

As noted above, the HMTA requires that PHMSA's regulations be risk-based. The agency, in turn, measures the success of its hazmat safety program by the number of transportation-related deaths and "serious injuries" (i.e., hospitalizations) are attributed to the hazardous materials.³ The agency acknowledges that these numbers "have declined an average of 4 percent every 3 years over the long term."⁴ Last year, 11 deaths, all due to human error, not a failure of a regulatory standard, were attributed to hazardous materials. None, since the early 1970s, have been attributed to commercial explosives. This contrasts with thousands of deaths annually that result from crashes involving large trucks, for example. Despite these compelling statistics and the current budget climate, PHMSA requests a 19.7-percent increase over fiscal year 2012 and 22 new positions, a 12.6-percent increase in full-time positions (FTP), for the hazmat program. Completely unjustified is PHMSA's proposal to devote 24 percent of the agency's budget to the processing of applications for special permits and approvals where there is no record of death.

While investigations into the Special Permits and Approvals program in the last Congress revealed that PHMSA had misplaced many documents from applications, none were attributed to a death or serious injury. Instead of asking holders of these authorities to provide the missing documents, PHMSA proceeded without notice and comment to restructure the program from one that took weeks to process applications to one that takes months, with double or triple the paperwork, and to establish a complex tiered system of applications reviews, including costly site visits, based on unpublished and unknown standards. In short, the agency created a paperwork empire, with no commensurate safety benefit. The cost and delay that have resulted from the agency's unfettered administrative actions are impediments to U.S. businesses dependent on these authorizations in the global race to market.

To finance this new special permit and approval processing hierarchy, PHMSA requested, as it did in fiscal year 2012, user fees of between \$700 and \$3,000 per application. PHMSA estimates that the fees will generate \$12 million. This user "tax" is without merit:

- The user fee revenue would be used to underwrite the agency's general fund, although only a fraction of the regulated community are holders of special permits and approvals.
- No death has been attributed to special permits or approvals since 1971 when agency records began to be kept.
- The Federal Government, not private companies, is the largest holder of approvals and special permits. The Government will pay no fees.
- Historically, fees have not been imposed on foreign entities for fear of retaliatory fees on U.S. exports giving foreign shippers a competitive advantage in the United States.
- PHMSA states that it needs funds to implement its Special Permits and Approvals Action Plan. However, PHMSA and the DOT/Office of Inspector General have said that the action plan implementation is complete.
- Nowhere in the budget request does PHMSA reveal its special permit and approval workload. Yet, the agency has reported to industry that there is no longer a backlog of applications, suggesting that the agency is managing with current resources.
- PHMSA estimates it processes 25,000 applications per year. At 25,000 applications per year, the cost per application should be no more than \$533. Using the \$700–\$3,000 fee range, PHMSA will generate between \$17.5 million and \$75 million in new revenue; nearly 1.5 to over 6 times the \$12 million the agency estimates it will need.

² PHMSA claims that a maritime incident in 2008 which resulted in three deaths was caused by the violation of a special permit. However, the deaths were not the proximate result of a special permit violation. Testimony in the resultant litigation showed the deaths were due to negligence of a number of parties involved in the shipment.

³ DOT 2011 Annual Performance Report, February 2012, page 9.

⁴ Fiscal Year 2013 PHMSA Budget Justification, page 3.

- Additional Federal workers will have to be hired to administer and collect the fee.
- It is the business activity, not the size, of a company that determines how many applications may be filed. Many payers will be small businesses.
- With the fee, there would be no incentive for PHMSA to incorporate proven special permits into the Hazardous Materials Regulations.
- The fee would be payable per application, creating an incentive for PHMSA to deny or reject applications on trivial pretexts thus generating new fees.
- Other DOT modal administrations issue approvals or what amount to special permits; none assess fees.
- This program, which provides safety benefits to the public, has been successfully run for decades without user fees. PHMSA's proposal could be the start of a trend for user fees for other regulatory actions including letters of interpretations or petitions for rulemaking necessary for compliance and good government.

PHMSA claims that the House Transportation and Infrastructure Committee mandated the programmatic changes necessitating the fees. However, there is no such statutory requirement, and neither has Congress provided PHMSA authority for this user fee. This user fee is really a hidden tax on companies that innovate and produce goods needed to strengthen and rebuild the U.S. economy. The user fee initiative should be rejected.

Rather than be party to the agency's costly empire building scheme, including six new FTP this year, the subcommittee should be asking what the agency is doing to "streamline" the application process; why "increasingly stringent monitoring" of permit and approval holders is necessary given the safety record of these entities; how the agency hopes to "accelerat[e] incorporation of special permit[s] into the HMR" when no new resources above baseline were requested to support rulemaking activity; and why the agency is devoting scarce staff resources to second-guess the results of government-established tests performed at government-approved laboratories for explosives classification approvals.⁵

OTHER BUDGETARY ISSUES TO CONSIDER

Staffing and Workload.—PHMSA's budget request provides no baseline empirical workload metrics to judge PHMSA's performance or the merit of the budget request. For example, the request is silent on the causes or rates of special permit or approval denials and resubmissions, which would drive workload and user fee receipts. The information, when provided, is prospective, not retrospective. The agency's budget increase is driven by requests for new FTP. These staffing enhancements are mis-allocated. The subcommittee should deny these requests:

—*Field Operations (FO).*—The number of FO positions has nearly doubled since 2003 to 63 FTP, with a FTP increase of 16 in fiscal year 2010. This year, PHMSA is requesting another 12 FTP, with no more justification than that the agency has only been able to inspect "2 percent of facilities under their jurisdiction." However, a 2-percent inspection rate may be appropriate given the "minimal rate of non-compliance" within the regulated community.⁶ At the same time, PHMSA provides no retrospective information on the actual number of inspection/investigation reports have been filed and how the inspections are categorized.

—*Radioactive Materials.*—PHMSA requests two additional FTP to address emergency threats from radioactive materials. However, quantities of high level radioactive waste or spent nuclear fuel are not moving from nuclear power plants in the absence of a permanent repository. Likewise, PHMSA's concern about cargo containers arriving in U.S. ports with surface radioactive contamination is a Customs and Border Protection concern. This request is without merit.

Grants Programs (GPs).—PHMSA operates three GPs funded by fees assessed on the hazardous materials community. We have long looked for evidence of program accomplishment and question the agency's claims about achievements ascribed to these programs. In 2005, Congress directed the agency to annually provide a detailed accounting of all grant expenditures.⁷ In the intervening 7 years, the agency has released only one such report, and that report did not provide the retrospective accounting necessary to determine if grant recipients were using funds appropriately.⁸ This year, an audit of the GPs by the Office of Inspector General found

⁵ Fiscal Year 2013 PHMSA Budget Justification, pages 68 and 100.

⁶ Fiscal Year 2013 PHMSA Budget Justification, page 67.

⁷ 49 U.S.C. 5116(k).

⁸ http://phmsa.dot.gov/staticfiles/PHMSA/DownloadableFiles/Files/Report_to_Congress_HMEP_Grants_Program_2005_2006.pdf.

systemic mismanagement and misuse of grant funds.⁹ PHMSA's request increases the fees allocated to administer the GPs from 2 percent to 4 percent although such fees are limited to 2 percent by statute.¹⁰ These programs warrant increased oversight by the subcommittee.

CONCLUSION

The transport of hazardous materials is a multi-billion dollar industry that employs millions of Americans. This commerce has been accomplished with a remarkable degree of safety. PHMSA has silenced the voice of the regulated community by refusing to submit its special permit and approval "standard operating procedures" and "fitness criteria" to notice and comment rulemaking. The subcommittee needs to make difficult decisions about where to save scarce Federal resources. Cutting the self-contrived administrative bloat from PHMSA's hazmat safety program would be a place to start. In addition to rejecting the proposed user fee, we strongly recommend that the subcommittee deny new staffing requests as explained, but redirect any new resources to enhance PHMSA's information technology and rulemaking capacities.

PREPARED STATEMENT OF THE INSTITUTE OF MAKERS OF EXPLOSIVES

INTEREST OF THE INSTITUTE OF MAKERS OF EXPLOSIVES

The Institute of Makers of Explosives (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 the Federal Motor Carrier Safety Administration (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 7 years, the 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 hazardous material (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

⁹ OIG, DOT, AV-2012-040, January 12, 2012.

¹⁰ 49 U.S.C. 5116(i)(4).

¹ 68 FR 49737, 49752 and 49753 (August 19, 2003); 69 FR 39367, 39352 (June 30, 2004).

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 6 years of the HMSP and during the 6 years immediately preceding the implementation of the HMSP shows that:²

²Data from the Hazardous Materials Information System (HMIS), 12/13/2011.

HMSP material	All hazmat highway incidents							
	1999-2004		2005-2010		1999-2004		2005-2010	
	Crashes	Fatalities	Crashes	Fatalities	Crashes	Fatalities	Crashes	Fatalities
Explosives (1.1, 1.2, 1.3)	9	2	13	2	.....	.....	.....	.....
RAM (HRCQ) ¹	4	.....	1	.....	.....	.....	.....	.....
TH	43	.....	46	.....	.....	.....	.....	.....
Methane	1	.....	.....	.....	.....	.....	.....	.....
Total	57	.....	60	.....	1,909	62	2,190	60

¹ 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.
² 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.

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 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 OOS³, 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 SFD 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 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 fiscal year 2013 budget estimate does it reference, let alone discuss, the issues described.⁶ Justice will not be served by inattention to these press-

³This 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.

⁴Letter to IME from FMCSA, November 14, 2011, page 1.

⁵This opportunity should not be available to applicants or holders that present an imminent hazard or evidence of a pattern of willful and knowing non-compliance with safety regulations.

⁶The HMSP is mentioned once in the Department of Transportation Annual Performance Report, Fiscal Year 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. . . .”

ing 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.

PREPARED STATEMENT OF THE NATIONAL AMERICAN INDIAN HOUSING COUNCIL

Chairwoman Murray, Vice Chairwoman Collins and members of the subcommittee. I am submitting this statement regarding the President's budget request (PBR) for fiscal year 2013 on behalf of the National American Indian Housing Council (NAIHC). My name is Cheryl A. Causley and I am the chairwoman of the National American Indian Housing Council (NAIHC), the only national tribal nonprofit 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 subcommittee's consideration as it reviews the PBR.

BACKGROUND ON THE NATIONAL AMERICAN INDIAN HOUSING COUNCIL

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 463¹ 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 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,

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 that were deemed eligible for housing assistance under the 1937 Housing Act and grandfathered in to the Native American Housing Assistance and Self-Determination Act of 1996.

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 South Dakota reservations, the unemployment rate exceeds 80 percent.

⁴ U.S. Census Bureau, American Indian and Alaska Native Heritage Month: November 2011. See <http://www.census.gov>.

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 underhoused.

—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 already a consensus among many members of Congress, Department of Housing and Urban Development (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.

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 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, 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 planning, administration, and housing management and services.

AMERICAN RECOVERY AND REINVESTMENT ACT AND FISCAL YEAR 2010 INDIAN HOUSING FUNDS

NAIHC would like to thank Congress for its important work to increase the much-needed investment in Indian housing during the past several years. In fiscal year 2010 the American Recovery and Reinvestment Act (ARRA) of 2009 provided over \$500 million for the IHBG program. This additional investment in Indian Country supported hundreds of jobs, permitted some tribes to start on new construction projects, and assisted still other tribes in completing essential infrastructure for housing projects that they could not have otherwise afforded with their yearly IHBG allocations. Tribes have complied with the mandate to obligate the funds in an expeditious manner, thus helping stimulate tribal, regional and the national economies.

In addition to ARRA funding, Congress appropriated \$700 million for the IHBG in fiscal year 2010, the first significant increase for the program since its inception. This positive step reversed a decade of stagnate funding levels that neither kept

⁵ Eligible activities include but are not limited to down-payment assistance, property acquisition, new construction, safety programs, planning and administration, and housing rehabilitation.

pace with inflation nor addressed the acute housing needs in Native communities. As you know, the Congress did not continue the upward trajectory in Indian housing funding and the appropriations have remained flat for each the past two fiscal years at \$650 million.

THE PRESIDENT'S 2013 BUDGET REQUEST FOR THE INDIAN HOUSING BLOCK GRANT

President Obama released his fiscal year 2013 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 fiscal year 2012. This spending level includes \$44.8 billion in budget authority for HUD, a 3.2 percent increase above the fiscal year 2012 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 fiscal year 2013. 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 (ICDBG), the same level of funding that was appropriated in fiscal year 2012, and zero funding for the widely acclaimed training and technical assistance (T/TA) program. NAIHC respectfully requests that funding for 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 funding be 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 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.

I want to again express, on behalf of the 271 tribal housing programs representing some 463 tribes that make up the NAIHC membership, our sincere gratitude for the subcommittee's support. It is worth noting that the ARRA funding spend-out rate for tribal programs exceeded the spend-out rate of HUD's non-Indian ARRA-funded programs. Spending rates for the tribal programs were at the 95 percent level, which is fully 10 percent more than the total HUD expenditure rate of 85 percent. When tribal communities are provided access to much needed housing funding, they are able to efficiently and effectively utilize these dollars to address the long-standing housing and infrastructure needs of their communities. Sustained Federal investment in housing and infrastructure for Native peoples is essential to maintaining the momentum gained by recent investment.

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 Federal guarantees for Financing Tribal Housing Activities, also known as the Title VI Loan Guarantee program, and \$7 million for the Indian Housing Loan Guarantee Program, also known as the Section 184 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.

The Section 184, Indian Home Loan Program, is specifically intended to facilitate home loans in Indian Country. NAIHC believes that, based on several years of experience, the PBR for these two programs, funded at \$2 million for the title VI program as requested in the PBR, but respectively request that the funding for the Section 184 program be restored to the \$9 million level that was enacted for fiscal year 2009.

Indian Community Development Block Grant

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 no funding for the section 184A program in Hawaii. While it has taken some time to get this program started—because lenders are not familiar with the section 184A program—providing no funding would be a step backward for Native Hawaiian families working toward homeownership. We urge Congress to consider this before agreeing to the administration's proposal to eliminate funding for the 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 TIF 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 fiscal year 2013 budget.

CONCLUSION

NAHASDA was enacted to provide Indian tribes and Native American communities 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 possible, 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 needed 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 which noted that the following:

"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

The needs in Indian Country have not lessened since this report was issued just 2 years ago. In fact, a cursory review of the Department of Commerce's Bureau of the Census suggests the needs continue to increase along with a growing and ever

⁶See GAO Report 10-326 at www.gao.gov/products/GAO-10-326.

younger population. In a report prepared in November 2011⁷ the Census reported that:

- The Nation’s American Indian and Alaska Native population increased by 1.1 million between the 2000 Census and 2010 Census, or 26.7 percent, while the overall population growth was 9.7 percent;
- The median income of American Indian and Alaska Native households was \$35,062 compared with \$50,046 for the Nation as a whole;
- The percent of American Indians and Alaska Natives that were in poverty in 2010 was 28.4 percent compared to the 15.3 percent for the Nation as a whole; and
- The percentage of American Indian and Alaska Native householders who owned their own home in 2010 was 54 percent compared with 65 percent of the overall population.

I wish to conclude this written testimony by thanking Chairwoman Murray, Ranking Member Collins, and all of the members of this subcommittee for allowing us to express our views and our aspirations. NAHASDA is a key element in improving the overall living conditions in Native America. 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 place. Not only is the tribal economy impacted, but so too are the lives of families and individuals who live in substandard housing.

I know we can count on you to support our efforts. Together, we can continue the important work of building communities in Indian Country. Your continued support of Native American communities is truly appreciated, and the NAIHC is eager to work with you and your professional staff on any and all issues pertaining to Indian housing programs and living conditions for America’s indigenous people.

PREPARED STATEMENT OF THE UNIVERSITY CORPORATION FOR ATMOSPHERIC
RESEARCH

On behalf of the University Corporation for Atmospheric Research (UCAR), I submit this written testimony to the Senate 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:

- The Federal Aviation Administration’s (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 and Equipment account—\$285 billion which includes \$57.2 million for System-Wide Information Management (SWIM) and \$23.8 million for Common Support Services.
- The Federal Highway Administration’s (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

⁷ See Census at http://www.census.gov/newsroom/releases/archives/facts_for_features_special_editions/cb11-ff22.html.

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 fiscal year 2013 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 fiscal year 2013 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 decisionmaking, 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 fiscal year 2010, fiscal year 2011, and fiscal year 2012 funding levels and is operating at half the level of funding of 10 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 fiscal year 2013.

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 fiscal year 2013 request of \$4.8 million for this small but life-saving program was reduced almost 50 percent from fiscal year 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 5 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-Dimensional (4-D) 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 fiscal year 2013 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 fiscal year 2008 to fiscal year 2012, 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 fiscal year 2013 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 al-

ternate 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 fiscal year 2013 budgets.

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