

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES AP-
PROPRIATIONS FOR FISCAL YEAR 2014**

HEARINGS

BEFORE A

**SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE**

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

H.R. 2610/S. 1243

**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,
2014, 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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¹ Died on June 3, 2013.

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**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2014**

THURSDAY, APRIL 11, 2013

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

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

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

This morning, we welcome Secretary Donovan to the subcommittee to discuss the President's fiscal year 2014 budget request for the Department of Housing and Urban Development (HUD).

As we begin our discussion of next year's budget, we have to really acknowledge where we are today. Because of the unwillingness of some in Congress to compromise on fair and balanced deficit reduction, we are now living with sequestration and the arbitrary cuts to Federal spending that it requires.

Some here in Washington, DC, have claimed that the impact is minimal. That is not the story that people all across the country who have to live with sequestration's consequences are telling.

The truth is these cuts are having an impact. And in so many cases, it is an impact that is being felt by the most vulnerable in our society.

The cut to HUD's section 8 voucher program, for example, is more than \$938 million, forcing housing authorities to make difficult choices to stay within their reduced budgets.

On the ground, that means tens of thousands of fewer vouchers to help our low-income families find safe, affordable housing.

In my home State of Washington, the King County Housing Authority announced it will not be reissuing vouchers, leaving our low-income Washington families without access to affordable housing. Stephen Norman, who is the King County Housing Authority

director, said immediately after he was forced to make these cuts that, “Because rents are so high, many of these families may, quite literally, find themselves out on the street as a result of these arbitrary cuts.”

They are not alone. Many housing authorities across the country are being forced to make similar decisions.

In other communities, families that were in the process of finding a place to live after spending months or years on a waiting list have been told their voucher has been withdrawn.

They are losing hope and relief of finally having access to affordable housing. Instead, they are left with frustration and uncertainty.

Those families are paying the price for the fact that Washington, DC, continues to lurch from crisis to crisis instead of compromising around a balanced deficit reduction plan.

As we continue to debate the future of the Federal budget, they are a clear reminder that our decisions have consequences, because this debate is about more than just numbers, it is about people’s lives and the Nation’s values.

This debate is also occurring at a critical time for our economy. After struggling through the great recession, the economy is finally growing. But recent jobs reports highlight how fragile our recovery is and that we cannot afford to push off the hard choices a budget deal requires.

Our focus needs to be on creating jobs today, while laying a strong foundation for the future.

A responsible plan will reduce the Nation’s deficit. But it cannot be at the expense of the most vulnerable or investments in things like infrastructure and education that are essential for a strong economy.

The budget we recently passed in the Senate provides a path forward that balances responsible spending cuts with necessary investments. And I look forward to working with my colleagues in both the House and the Senate to try to enact a responsible budget compromise.

This will require hard choices on all sides, but the American people expect action.

So as we continue to work on the budget, we also have to begin our work on the fiscal year 2014 appropriations bills. And today, this subcommittee begins its work by examining HUD’s budget request.

The majority of HUD’s budget supports a critical part of the Nation’s safety net—housing assistance. This includes funding for section 8 vouchers, project-based section 8, public housing, and homeless assistance grants.

These programs have long provided low-income Americans with safe, affordable housing and shelter in time of crisis. These programs are even more important today as families struggle to find affordable housing.

According to HUD’s recent report on the worst-case housing needs, in 2011, there were over 8.5 million low-income renters who spent more than 50 percent of their income on housing, lived in severely substandard housing, or both.

Perhaps even more troubling is the fact that this number has grown by 43.5 percent since 2007.

As we struggle to address the growing housing needs with limited resources, Federal programs must be smarter and more agile. Neither the taxpayers nor the millions of people who rely on these programs can afford waste or inefficiency.

So it is incumbent upon HUD and this subcommittee to ensure accountability. We have to look for ways to improve program oversight and delivery by ensuring people are following the rules, eliminating outdated regulations, streamlining programs, and improving coordination across Government programs to make the best use of scarce resources.

Improving Federal programs goes beyond ensuring compliance. It also means focusing on outcomes.

Successful housing programs are those that create new opportunities for their residents so they can improve their lives and those of their children.

In Washington State, I have seen exciting partnerships among housing authorities, schools, community colleges, and employers designed to reduce poverty and its lasting impacts.

These partnerships are built on an understanding that housing can and should do more than meet the basic need for shelter.

Housing in strong, safe neighborhoods with access to good schools, jobs, services, and transportation can help transform people's lives.

The President's budget includes an initiative called Ladders to Opportunity, which is focused on creating jobs, attracting private investment, improving educational outcomes, and increasing economic activity in high-poverty communities across the Nation.

Several proposals in HUD's budget support this initiative, including Choice Neighborhoods, the Rental Assistance Demonstration, and the Neighborhood Stabilization Initiative.

In addition, the budget includes a new pilot program to help address the needs of the growing low-income elderly population, funding to combat mold in Indian country, and expansion of the successful Jobs-Plus program for public housing residents.

While all of these proposals address important issues facing urban and rural communities across the country, we must evaluate both their budgetary cost and HUD's capacity to take on new initiatives.

HUD cannot effectively manage new initiatives at the cost of the performance and oversight of their existing programs.

The Department must improve its oversight of public housing authorities and other grantees; deliver on the needed investments in its information technology (IT) systems; and continue to strengthen the Federal Housing Administration's (FHA) Mutual Mortgage Insurance (MMI) Fund, which the budget anticipates needing to draw on taxpayer funds for the first time in its history.

As our housing market continues its recovery, now is the time to be thinking of the future of the Nation's housing policy.

This conversation is appropriately focused on reforming our housing finance system to ensure a strong housing market, supported primarily by the private market. But this conversation must also address the future of affordable rental housing.

Recently, the Bipartisan Policy Center's Housing Commission released recommendations for the future of housing policy. My friend, former Senator Kit Bond, was a member. Their recommendations support homeownership and the need to reform our Nation's housing finance system.

The commission also reaffirmed the importance of affordable housing. Its recommendations provide a very good foundation for beginning the discussion of our Nation's housing policy, which I look forward to continuing today.

PREPARED STATEMENT

And with that, I will turn it over to my partner, Senator Collins.
[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

The subcommittee will come to order. This morning we welcome Secretary Donovan to the subcommittee to discuss the President's fiscal year 2014 budget request for the Department of Housing and Urban Development (HUD). As we begin our discussion of next year's budget, we must acknowledge where we are today.

SEQUESTRATION'S IMPACT ON THE MOST VULNERABLE

Because of the unwillingness of some in Congress to compromise on fair and balanced deficit reduction, we are now living with sequestration and the arbitrary cuts to Federal spending it requires.

And while some here in Washington, DC, have claimed that the impact is minimal, that's not the story that people all across the country who have to live with sequestration's consequences are telling. The truth is these cuts are having an impact. And in so many cases it's an impact that's being felt by the most vulnerable in our society.

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And they are not alone. Many housing authorities across the country are being forced to make similar decisions. In other communities, families that were in the process of finding a place to live after spending months or years on a waiting list have been told that their voucher has been withdrawn. They are losing the hope and relief of finally having access to affordable housing. Instead they are left with frustration and uncertainty. These families are paying the price for the fact that Washington, DC, continues to lurch from crisis to crisis instead of compromising around a balanced deficit reduction plan. As we continue to debate the future of the Federal budget, they are a clear reminder that our decisions have consequences.

Because this debate is about more than just numbers, it is about people's lives and the Nation's values. This debate is also occurring at a critical time for our economy. After struggling through the Great Recession, the economy is finally growing. But recent jobs reports highlight how fragile our recovery is and that we cannot afford to push off the hard choices a budget deal requires.

Our focus needs to be on creating jobs today, while laying a strong foundation for the future. A responsible plan will reduce the Nation's deficit. But it cannot be at the expense of the most vulnerable or investments in things like infrastructure and education that are essential for a strong economy.

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- section 8 vouchers;
- project-based section 8;
- public housing; and
- homeless assistance grants.

These programs have long provided low-income Americans with safe, affordable housing and shelter in times of crises. These programs are even more important today as families struggle to find affordable housing.

According to HUD's recent report on the worst case housing needs, in 2011, there were over 8.5 million low-income renters who spent more than 50 percent of their income on housing, lived in severely substandard housing, or both. Perhaps even more troubling is the fact this number has grown by 43.5 percent since 2007.

IMPROVING PERFORMANCE AND ACCOUNTABILITY

As we struggle to address the growing housing needs with limited resources, Federal programs must be smarter and more agile. Neither the taxpayers nor the millions of people who rely on these programs can afford waste or inefficiency. So it is incumbent upon HUD and this subcommittee to ensure accountability. We must look for ways to improve program oversight and delivery by:

- Ensuring people are following the rules;
- Eliminating outdated regulations;
- Streamlining programs; and
- Improving coordination across Government programs to make the best use of scarce resources.

Improving Federal programs goes beyond ensuring compliance. It also means focusing on outcomes. Successful housing programs are those that create new opportunities for their residents so that they can improve their lives and those of their children.

In Washington State, I have seen exciting partnerships among:

- Housing authorities;
- Schools;
- Community colleges; and
- Employers designed to reduce poverty and its lasting impacts.

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- Creating jobs;
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- Improving educational outcomes; and
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Several proposals in HUD's budget support this initiative, including:

- Choice Neighborhoods;
- The Rental Assistance Demonstration; and
- The Neighborhood Stabilization Initiative.

In addition, the budget includes a new pilot program to help address the needs of the growing low-income elderly population, funding to combat mold in Indian Country, and expansion of the successful Jobs-Plus program for public housing residents.

While all of these proposals address important issues facing urban and rural communities across the country, we must evaluate both their budgetary cost and HUD's capacity to take on new initiatives.

HUD cannot effectively manage new initiatives at the cost of the performance and oversight of existing programs. The Department must:

- Improve its oversight of public housing authorities and other grantees;
- Deliver on the needed investments in its IT systems; and
- Continue to strengthen FHA's Mutual Mortgage Insurance Fund, which the budget anticipates needing to draw on taxpayer funds for the first time in its history.

As our housing market continues its recovery, now is the time to be thinking of the future of the Nation's housing policy. This conversation is appropriately focused on reforming our housing finance system to ensure a strong housing market, sup-

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The Commission also reaffirmed the importance of affordable housing. Its recommendations provide a good foundation for beginning the discussion of our Nation's housing policy, which I look forward to continuing today.

With that I turn it over to my partner, Senator Collins.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you, Madam Chairman.

First of all, let me say that I am delighted to be working with you once again this year, as we start the fiscal year 2014 appropriations process under the new leadership of both Chairman Mikulski and Vice Chairman Shelby, as well as the members of this subcommittee, including our colleagues, Senator Coats and Senator Blunt, who have joined us today. I am always glad to see strong representation on the Republican side of the dais here.

Mr. Secretary, it is also a great pleasure to see you again. I am very happy that you are apparently going to be staying on in the second administration, at least for a while, since I have found you to be a real straight-shooter and dedicated to improving housing opportunities for the people of this country. And I look forward to continuing to work with you.

Obviously, we still have very serious budget issues to deal with. And we must find a careful balance to ensure that we deal with the ongoing unsustainable \$16.7 trillion debt, while providing housing for our most vulnerable citizens.

As we begin to construct this spending bill, we continue to face difficult decisions given these fiscal constraints. Sequestration is going to make some of these decisions even tougher.

I am concerned for the Maine housing authority directors, with whom I recently met, who told me they are being forced to reduce spending at the expense of families in need. Some of them told me that they were actually turning back vouchers because they did not have sufficient administrative funds. And that certainly is of great concern.

Yet, even though sequestration cuts have already taken effect, the deficit continues to rise. The budget that HUD has submitted is \$47.6 billion for fiscal year 2014 and an increase of nearly \$4.2 billion, or 6.67 percent, over the fiscal year 2013 sequestration levels.

What would be helpful to me today, however, is to have you describe the total resources that are available to HUD, including offsetting receipts, and to give us a comparison to the pre-sequestration levels, as well. And I understand that you are prepared to do that.

The vast majority of this funding will support renewals for rental and homelessness assistance. The budget also provides for investment to revitalize neighborhoods and support economic development initiatives in communities throughout the country.

As we prepare the budget, it is critical that we address the ongoing challenges with homelessness, which remains a personal 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 that the budget continues funding for HUD's Veterans Affairs Supportive Housing, the HUD-VASH program, at \$75 million. This level of funding, I am told, will allow us to serve an additional 10,000 veterans.

And it is important to note that this program is working, that veterans' homelessness has fallen, and it fell by nearly 7.2 percent from 2011 to 2012. That demonstrates that programs like this work.

And that needs to be our focus. We need to focus like a laser on what kinds of housing programs work, give us the biggest bang for the buck, and what kind really have outlived their usefulness, are not expansive, and, most of all, are not effective in serving families in need.

In addition to programs that serve the homeless, HUD provides important support for affordable rental housing.

Another important issue which we discussed at length is the oversight and monitoring of HUD's programs. In that regard, Mr. Secretary, I want to thank you for your work on an investigation in Maine into the Maine State Housing Authority section 8 voucher program last year. I requested an investigation into the troubling cases of serious code violations and other poor conditions that were uncovered in Oxford County, Maine, and brought to me by the attention of a local fire chief who was so concerned. And I appreciate so much the work of your Department in addition to the work of the inspector general.

It is critical that federally subsidized properties comply with all health, safety, and quality standards. After all, it is inexcusable that we are putting residents in units and apartments that had serious violations of welfare and safety and health standards. But it is doubly offensive when the taxpayers are subsidizing those unfit units.

So those are just some of the issues. I am pleased with the increased funding levels for section 202 housing for the elderly. This program has provided over 400,000 affordable homes for very low-income elderly individuals through a number of different financing structures.

Many people are surprised to learn that Maine has one of the largest elderly populations in the country. In fact, if you look at the median age, we are the oldest State in the Nation, older than Florida even. That raises certain challenges.

There is one area that I want to highlight in closing, and that is the funding level for the community development block grant (CDBG) program. As you know, I believe that the level of \$2.79 billion is truly disappointing. I am told that, if enacted, this would be the lowest level of funding since 1976. And yet, this program remains the most adaptable, the most welcomed community and economic development Federal program for meeting the unique needs of communities throughout this country.

PREPARED STATEMENT

These are just some of the many issues we are going to have to tangle with this year, and I look forward to working with the chairman and the members of this subcommittee as we consider HUD's fiscal year 2014 budget request.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Thank you, Chairman Murray. I am delighted to join you as we start the fiscal year 2014 appropriations process under new leadership of both Chairman Mikulski and Vice Chair Shelby, as well as the new members of this subcommittee.

Mr. Secretary, it is nice to see you again. I look forward to continuing to work with you to meet the housing and economic development needs of families and communities throughout the Nation and I look forward to your testimony as we consider the Department of Housing and Urban Development's (HUD's) fiscal year 2014 budget request.

As we begin to construct this spending bill, we continue to face difficult decisions given the fiscal constraints we remain under. Sequestration will make these decisions even tougher. I am also concerned for the public housing authorities who are being forced to reduce spending at the expense of families in need. While sequester cuts have already taken effect, the deficit continues to rise. We must, however, find a careful balance to ensure that the Nation's most vulnerable are provided for.

The President's fiscal year 2014 HUD budget request is \$47.6 billion, an increase of nearly \$4.2 billion or 6.67 percent above fiscal year 2013 enacted levels. The vast majority of this funding will support the renewals for rental and homelessness assistance. The budget also provides for the investment to revitalize neighborhoods and support economic development in communities throughout the country.

As we prepare the budget for fiscal year 2014, it is critical that we address the ongoing challenges with homelessness, which 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 nationwide. Veterans' homelessness fell by nearly 7.2 percent from 2011 to 2012, demonstrating that programs like HUD-VASH work.

I continue to support the Homeless Assistance Grants program to prevent and end homelessness. The budget proposes \$2.38 billion for this program, which is \$575 million over current levels.

In addition to programs that effectively serve the homeless, HUD also provides support for affordable rental housing. The budget proposes nearly \$20 billion for the Tenant-Based Rental Assistance program, of which \$1.685 billion is available for administrative costs.

Another important issue is the oversight and monitoring of HUD's programs. Mr. Secretary, I want to thank you for your work into the investigation of Maine State Housing Authority's section 8 voucher program. Last year, I requested an investigation into the troubling cases of code violations and other poor conditions that were uncovered in Oxford County. I appreciate the work of your Department, in addition to that of Inspector General Montoya. It is critical that federally subsidized properties comply with all health, safety, and quality standards.

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.

Nationwide, more than 5.4 million families receive housing assistance through the many programs offered at HUD. Altogether, more than 65 percent of HUD-assisted households are elderly or disabled. I am pleased to see the increased funding levels for the Section 202 Housing for the Elderly program. This program has provided over 400,000 affordable homes for very-low-income elderly individuals through a number of different financing structures in the past. Maine has one of the largest elderly populations in the United States. In fact, Maine has the oldest median age population in the United States.

Finally, the funding level for the Community Development Block Grant (CDBG) program, which is proposed at \$2.79 billion is truly disappointing. If enacted, this would reach the lowest level of funding since 1976. With 1,100 grantees served by an estimated 7,000 local governments across the country, CDBG remains the largest and most adaptable community and economic development Federal program for meeting the unique needs within these communities.

These are just some of the many 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 2014 budget request.

Senator MURRAY. Thank you very much. And, Senator Collins, I appreciate the opportunity to work with you again this year on a subcommittee we both care passionately about. It is great to work with you.

Senator Coats, do you have an opening statement?

STATEMENT OF SENATOR DAN COATS

Senator COATS. Madam Chairman, I do.

I thank you. I look forward to serving on this subcommittee with you and our ranking member.

Not to repeat, but I will repeat Senator Collins' point that we are operating during a time where the game has changed. Instead of coming here every year on the Appropriations Committee and saying, "how much more are we going to spend this year?" we are faced with a fiscal crisis which requires us to say, how can we take better care of the taxpayer dollars that are being sent here? How can we better manage our Departments? How can we be more efficient with perhaps less to spend or not as much to spend as we would like? How can we separate the essential from the "well, we would like to do this but can't afford it right now," from the "why are we doing that in the first place?" Or maybe that had a sufficient function going forward at one time, but we just cannot justify that program.

All of this to address the fiscal issue in one of two ways: One, how can we save money and turn it back and reduce our debt and deficit? Second, how can we better transfer this money to essential programs instead of wasting it on programs that do not seem to work very well?

Let me just mention a couple things.

Mr. Secretary, I am not sure my time will allow me to be here to ask this direct question, but I will just put it out there and you can address it in a general way.

In 2012, the Government Accountability Office (GAO) found that the Federal Government is operating 160 separate housing assistance programs and tax expenditures within 20 departments, agencies, costing about \$170 billion. Is there room here to eliminate some of this duplication or to consolidate some of this, so that we do not have to have each separate entity here staffed all the way down through the administrative positions, and so forth? Is there room for this type of consolidation and coordination?

Every business in America has had to do this since the 2008 collapse. And when we mentioned sequester, they say, "Five percent, 7 percent? I mean, we have had to do 15 percent. We have had to do 18 percent. But we are a much more leaner, more efficient organization now."

We see that everywhere in the private sector, but we do not see that in the Federal Government.

HUD provided a community development block grant in the amount of \$505,000 to a private entity, Sergeant's Pet Care Products, Inc., which specializes in pet shampoo and toothpaste. Now, maybe there is justification for this small business. I do not know. But it is a private company. They are expected to bring in revenue of \$140 million in 2012. Why are we giving CDBG grants to private companies who are earning revenues of over \$100 million?

And last, according to HUD's own inspector general, for 2012 fiscal year, he said HUD could have put over \$3.2 billion to better use and has paid over \$1.3 billion in questionable costs. So that is \$4.5 billion in public funds that perhaps could have shifted to provide better housing or more effective housing, or not spent at all.

So just in a general way, Mr. Secretary, address the broader question. You do not have to provide it here exactly the details of this particular loan or justify this or that. The larger question of what is HUD doing, what are you doing, to try to make your Department more efficient, more effective, given the scarcity of funds that we have, and the fact that we need to be more careful with the taxpayer dollars. So when you have a chance to address that, I would appreciate it.

And, Madam Chairman, thank you.

Senator MURRAY. Thank you very much.

Senator Blunt.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Chairman, thank you for conducting the hearing.

Secretary, thank you for being here. I look forward to working with you and Senator Collins on this important subcommittee.

And I have a statement for the record, and I will just submit it for the record.

[The referenced statement was not available at press time.]

Senator MURRAY. Thank you very much.

With that, Secretary Donovan, we will turn it over to your opening statement. And we do have a vote around 11 o'clock, but I think we have sufficient time for your statement and questions from those of us who are here this morning. I will turn it over to you.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you.

Chairman Murray, Ranking Member Collins, members of the subcommittee, thank you for having me here today.

HOUSING AND COMMUNITIES

HUD's fiscal year 2014 budget proposal will help grow our economy from the middle class out by supporting the ongoing recovery in our housing market and creating Ladders of Opportunity in communities across the country.

As the President said, our economy is strongest when we expand opportunity and reward the hard work of everyone. HUD's budget does this by supporting the creation and retention of 620,000 jobs.

We followed four main principles in creating our 2014 budget. The first was to continue support for the resurgent housing market, while encouraging the return of private capital and rebalancing the Nation's housing finance system.

Today, the housing market is playing a key role in our economic recovery. Rising home values lifted 1.7 million families back above water, and home equity grew by more than \$1.6 trillion in 2012.

FEDERAL HOUSING ADMINISTRATION

FHA continues to play an important role in this effort, insuring nearly 1.2 million single-family mortgage loans in 2012. However, due to reverse mortgages and other loans insured during the economic crisis, the fiscal year 2014 budget projects that FHA will need \$943 million in support from Treasury. As you know, any decision to draw from the Treasury depends on the actual performance of the fund during the current fiscal year.

We have taken aggressive steps to protect the fund and are already seeing strong results from those efforts, even with stress from the troubled reverse mortgage program and the now banned seller-assisted down payment programs. In fact, while the gross budget authority HUD requests in 2014 is \$47.6 billion, a 7-percent increase over the fiscal year 2012 enacted level, offsetting receipts from FHA and Ginnie Mae totaling \$14.5 billion bring the cost to the taxpayer to only \$33.1 billion, almost 12 percent below the fiscal year 2012 enacted level.

Despite this progress, we continue to take responsible administrative action, and the fiscal year 2014 budget calls on Congress to further assist in stabilizing the fund.

ASSISTED HOUSING

The second principle we used in developing our budget was to protect current vulnerable residents. There are 5.4 million families who live in HUD-assisted housing, a number we have increased by more than 219,000 over the last 3 years through better management.

These households earn just \$12,500 a year on average and nearly two-thirds have a member who is elderly or disabled.

Fully funding renewals consumes 84 percent of our proposed budget just to keep current residents in their homes, support homelessness prevention, and provide basic maintenance to public housing.

And again, to echo your words, chairman, this has never been more important with the staggering over 40 percent increase in worst-case housing needs we have seen in just 4 years.

EXISTING PARTNERSHIP

The third principle we followed was to build on existing partnerships, helping to create Ladders of Opportunity while embracing smart, effective, efficient Government. As the President made clear in his State of the Union Address, in too many hard-hit communities, the life chances of a child are determined not by her talents, but by her ZIP Code. The Promise Zones proposed by the President expand investments by HUD, the Departments of Education and

Justice, and other agencies, while coordinating and streamlining this work to maximize impact and reduce costs.

CHOICE NEIGHBORHOODS

The \$400 million we have requested for our Choice Neighborhoods program represents a significant increase that will allow us to transform public and assisted housing in our hardest hit neighborhoods and ensure our children are prepared for the 21st century economy.

Building on the success of three rounds of neighborhood stabilization funding, a \$200 million Competitive Neighborhood Stabilization Initiative within our community development block grant program will address the needs of neighborhoods that continue to suffer the negative effects of abandonment and foreclosure of privately owned housing.

Our reorganized Office of Economic Resilience, to be located within HUD's Community Development and Planning Division, would offer \$75 million in integrated planning and investment grants that support local investments in infrastructure and other development to create jobs and build diverse, resilient economies.

REGULATORY BURDENS

The final principle we used in creating this budget was to increase efficiency, reduce regulatory burdens, and provide flexibility to our partners, allowing them to better manage resources.

SECTION 8 REFORMS

I look forward to working with Congress to enact the section 8 reforms proposed in our budget, which would save approximately \$2.8 billion over the next 5 years and streamline outdated statutes governing our public and assisted housing.

Expanding initiatives like the Rental Assistance Demonstration and the Moving To Work program will allow more public housing authorities the flexibility to pilot innovative strategies that will better serve residents, consolidate programs, and save taxpayers money.

TRANSFORMATION INITIATIVES

This budget also continues the transformation initiative, allowing us to propose increased investments in programs we know work and stop funding the ones that do not, and to hold our partners accountable for the funding they receive.

Perhaps the best example of this approach is found in Opening Doors, the administration's plan to end homelessness, which has dramatically reduced chronic and veterans' homelessness over the last 2 years.

VASH VOUCHERS

Because we know these programs save lives as well as taxpayer dollars, our budget proposes 10,000 new VASH vouchers and a significant increase in our homeless assistance grants.

Unfortunately, sequestration seriously threatens our ability to serve families, communities, and even veterans across the Nation

with hundreds of thousands likely to lose assistance we have worked so hard to preserve.

While we are attempting to reduce these impacts, there is simply no way to prevent serious damage this year, or the resulting consequences for fiscal year 2014, unless sequestration is reversed with the balanced deficit reduction plan proposed by the President.

PREPARED STATEMENT

I look forward to working with you, both on the fiscal year 2014 budget and on reversing the harmful cuts imposed by sequestration.

Thank you for the opportunity to testify today. I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Thank you, Chairman Murray and Ranking Member Collins, for this opportunity to discuss how the Department of Housing and Urban Development's (HUD's) fiscal year 2014 budget proposal will grow our economy from the middle class out—not from the top down—while supporting the recovery in our housing market and economy. The investments in the Department's programs that this budget makes are essential to delivering on the President's promise to make America a magnet for jobs and manufacturing, equip every American with the skills they need to do those jobs, and ensure that hard work leads to a decent living.

Overall, this budget furthers the Department's mission of supporting home ownership, access to affordable housing free from discrimination, and community development. The 2014 President's budget provides \$47.6 billion for HUD programs to support these efforts, in addition to a receipts projection of \$14.5 billion—representing a net decrease of \$3.2 billion from the 2012 enacted level. Increases are provided to protect vulnerable families and employ proven tools to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. To build more evidence of what works, State and local public housing authorities are offered program flexibilities in exchange for designing and rigorously evaluating innovative programs and policies. The constrained fiscal environment also forced tough choices, including funding reductions to programs that increase the supply of affordable housing.

The Department's budget for fiscal year 2014 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:

Supports the Mortgage Market and Helps Borrowers Who Are at Risk of Foreclosure.—The Administration projects that the Federal Housing Administration (FHA) will insure \$178 billion in mortgage loans in 2014, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA financing was used for 27 percent of home purchase loans in 2011, including an estimated 41 percent of first-time homeowners. FHA's loss mitigation program minimizes the risk of financially struggling borrowers going into foreclosure, and since the start of the mortgage crisis, it has helped more than a million homeowners. Recent increases in FHA premium levels will boost FHA's capital reserves and increase Federal revenues.

The budget also includes \$132 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). Over half of these funds are dedicated to foreclosure assistance. NeighborWorks' National Foreclosure Mitigation Counseling program has assisted over 1.4 households since its inception in 2008.

Provides Ladders of Opportunity for Anybody Willing To Work Hard and Play by the Rules.—The budget provides \$400 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level, which is \$280 million above 2012 enacted, will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. A portion of these funds will be targeted to designated Promise Zones—high-poverty communities where the Federal Government will partner with local leadership to create jobs, leverage private investment, increase eco-

conomic activity, reduce violence, and improve educational opportunities. To further support Promise Zones, the budget includes companion investments of \$300 million in the Department of Education's Promise Neighborhoods program, \$35 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, and continues to support the Strong Cities, Strong Communities initiative as well as tax incentives to promote investment and economic growth.

Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs.—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 includes funding for the Office of Economic Resiliency which, as part of the Administration's multiagency partnership between HUD, the Department of Transportation, and the Environmental Protection Agency, will administer \$75 million in Integrated Planning and Investment Grants. These grants will create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use, and zoning ordinances that result in more resilient economic development, improve housing supply response to demand, and increase affordable housing near public transit. This funding, which builds upon the progress made through Sustainable Communities program, would support about 30 additional regional and neighborhood planning and implementation grants to enable communities to plan for their economic future. This funding 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 in 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; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns Federal policies and funding to remove barriers to local collaboration. The budget provides \$3 billion for the Community Development Block Grant (CDBG) program and neighborhood stabilization activities, and proposes reforms to better target CDBG investments to address local community development goals. This funding level includes \$200 million in new competitive funds to continue mitigating the impacts of the foreclosure crisis. This funding will provide essential new resources to help communities hardest hit by the foreclosure crisis while creating jobs through rehabilitating, repurposing, and demolishing vacant and blighted properties. The budget also maintains its support for the proposed \$15 billion Project Rebuild program, which will leverage private capital to bring the benefits of neighborhood stabilization to national scale.

Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan To End Homelessness.—The budget includes \$20 billion for the Housing Choice Voucher program to help more than 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and provides 10,000 new vouchers targeted to homeless veterans. The budget also includes \$10.3 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides \$6.6 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

The budget provides \$2.4 billion for Homeless Assistance Grants, \$480 million above the 2012 enacted level. This funding maintains the approximately 325,000 HUD-funded beds that assist the homeless nationwide and expands rapid re-housing and permanent supportive housing. Backed with new data and emerging best practices across the United States, this evidence-based investment will make further progress towards the goals laid out in the Federal Strategic Plan to End Homelessness.

Puts HUD-Subsidized Public and Assisted Housing on a Financially Sustainable Path.—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 1 million families in public housing while subjecting them to overly burdensome regulation and denying them access to private capital available to virtually every other form of rental housing. To bring the public housing program toward mainstream real estate financing and management practices and begin to address the \$26 billion in capital needs, the Department will continue to implement the Rental Assistance Demonstration (RAD) enacted in 2012. At the same time, the budget provides \$10 million for a targeted expansion

of RAD to public housing properties in high-poverty neighborhoods, including designated Promise Zones, where the Administration is also supporting comprehensive revitalization efforts.

Improves the Way Federal Dollars Are Spent and Builds Evidence of What Works.—The budget proposes to scale up the Moving To Work (MTW) program, which gives high-performing State and local public housing authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and public housing funds. In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs. In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

The budget also modernizes the Housing Opportunities for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. This update includes a new formula that will distribute HOPWA funds based on the current population of people living with HIV/AIDS, 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 targeted, timely, and cost-effective interventions. The budget's \$332 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 connected to treatment, and therefore improving health outcomes for this vulnerable population.

Makes Tough Choices.—The budget provides \$950 million for the HOME Investment Partnerships Program, 5 percent below the 2012 enacted level. At this funding level, HOME will provide grants to State and local governments to supply almost 40,000 additional units of affordable housing for low-income families. This funding reduction is mitigated by the investment of \$1 billion in mandatory funding for the Housing Trust Fund to finance the development, rehabilitation, and preservation of affordable housing for extremely low income families.

The budget provides a total of \$526 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, \$13.6 million below the 2012 enacted level. This funding level will support all 150,000 existing units in these programs, but limits new construction to \$40 million for additional supportive housing units. These investments directly support research that will build our understanding of the intersection between supportive housing and healthcare costs, and help identify what works best in allowing seniors to age-in-place.

Reforms Government So That It's Leaner, Smarter, More Transparent, and Ready To Succeed.—The American economy of the future requires a Federal Government that is efficient, streamlined, and transparent. As such, the budget proposes reforms to HUD rental assistance programs that would save nearly \$400 million in fiscal year 2014 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 through the Transformation Initiative, which the Department will use 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.

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, helping to make America a magnet for jobs, and ensuring that our workers have the skills they need for those jobs. Consistent with its budget proposals in the first term, HUD's fiscal year 2014 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. 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.

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, and doing both in a way that minimizes risks to taxpayers.

In 2014, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 1.2 million single-family mortgages (at a projected \$199.3 billion in loan volume) and \$30 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 273,000 units in multifamily housing properties and an estimated 75,700 beds in healthcare facilities. The need for this investment is clear as FHA has stepped up in recent years to address the unprecedented challenges wrought by the housing crisis, playing an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, and to assure ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers. However, FHA's expanded role is and should be temporary.

FHA's share of the mortgage market has gone from a low of 3.1 percent of loan originations in 2005, up to a peak of 21.1 percent in 2010, and more recently down to 16.5 percent in the 4th quarter of 2012 (U.S. Housing Market Conditions Report, 4th Quarter 2012). In fact, the number of FHA single family loan endorsements has declined to levels comparable to those seen in fiscal years 2002 and 2003, when FHA's market share was lower than it is today, indicating that FHA's current slightly elevated market share is primarily due to a substantial decrease in the size of the total mortgage market rather than exceptionally high FHA loan volumes. As the market continues to recover and private capital returns at more normal levels, FHA's role will naturally recede.

As has been true throughout its history, 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. According to the latest Home Mortgage Disclosure Act data, half of all African Americans who purchased a home in 2011, and 49 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 February 2013, more than 6.4 million foreclosure prevention actions were taken—including nearly 1.7 million FHA loss mitigation and early delinquency interventions and 1.5 million homeowner assistance actions through the Making Home Affordable program, including more than 1.1 million permanent modifications through the Home Affordable Modification Program (HAMP)—saving these households an estimated \$18.5 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 ex-

ceed 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 made changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to encourage lenders to offer this product more widely to homeowners with FHA-insured mortgages.

—*Changes to FHA's Loss Mitigation Waterfall.*—A mortgagee letter published on November 16, 2012, outlined changes to FHA's loss mitigation home retention options. One of the key elements of this update was moving FHA's Home Affordable Modification Program (HAMP) product up in FHA's loss mitigation waterfall so servicers could more quickly offer deeper payment relief to struggling FHA borrowers, resulting in an increase in the number of borrowers being able to retain their homes.

—*Housing Counseling.*—In 2014, 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 estimates that 2,650 HUD-approved counseling agencies employing an estimated 8,000 newly certified housing counselors, will assist a total of 2.5 million renters and owners. 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 2012, 2,410 HUD-approved housing counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million renters and owners.

HUD's new Office of Housing Counseling has several initiatives to ensure borrowers have access to all rights and remedies afforded to them to stay in their homes. HUD has worked closely with interested States to determine effective ways in which funds from the National Mortgage Servicing Settlement can be used to expand housing counseling resources, resulting in more than \$300 million in settlement funds committed to housing counseling or legal services for affected borrowers. HUD-approved housing counseling agencies continue to provide foreclosure prevention services, reaching 774,000 families in fiscal year 2012. In addition, FHA is exploring ways to further integrate housing counseling into its loss mitigation program, offering distressed FHA borrowers additional resources with which to assess their options and make decisions appropriate to their situation.

—*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. FHA made enhancements to the program in March of last year and announced an extension to the expiration date of the program in order to increase the number of borrowers who will benefit from this initiative.

—*Strengthening FHA and Paving the Way for Private Capital To Return.*—The President's budget shows that FHA, while still under stress from legacy loans, has made significant progress and is on a sound fiscal path moving forward. Like nearly all mortgage market institutions, FHA sustained significant losses due to the precipitous fall in the housing market and home prices, and is putting additional funds aside this year to cover those legacy losses. But, again, like most mortgage lenders, recent and future books of mortgage business are expected to bring healthy gains.

Throughout the economic crisis, as the FHA's fiscal health faced challenges, this Administration took swift and effective action to protect the FHA and the American taxpayer alike, as FHA continued to fulfill its dual mission of supporting the housing market during tough times and providing access to homeownership for underserved populations. FHA is currently insuring the strongest loans in its history. In contrast to legacy loans, and thanks in large part due to changes the Administration has put in place regarding pricing, lender enforcement, and risk reduction, the books of business FHA has insured since 2010 are vastly superior to any others from recent years, as measured by early delinquencies and other metrics. In addition, the Administration has raised annual insurance premiums for most FHA mortgages by 0.8 percentage points, greatly increasing revenue for the FHA fund. And healthier house prices have reduced FHA losses on defaulted mortgages.

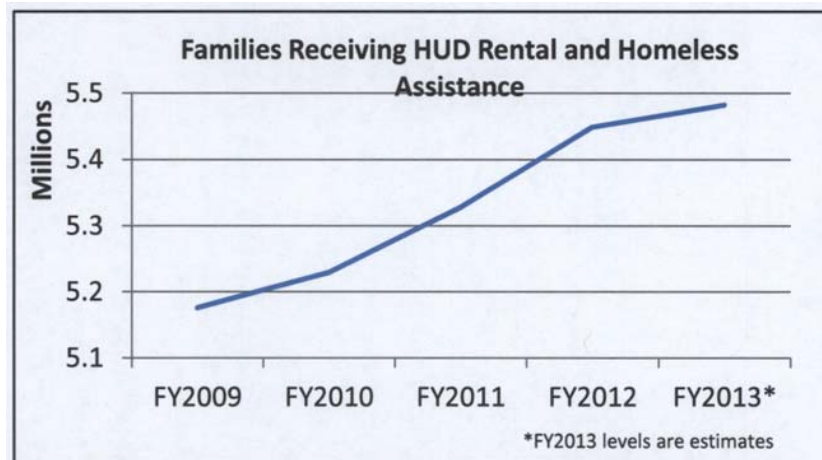
Due to the higher quality and large volume of current loans, we project FHA will generate \$18 billion in receipts during fiscal year 2013, including \$3 billion generated from the new premium increase that went into effect April 1, 2013, and reversal of a policy that caused FHA to forfeit collection of mortgage insurance pre-

mium (MIP) after a loan reached 78 percent of its original principal balance. Further, as a result of these same changes, the fiscal year 2014 budget projects FHA receipts of almost \$13 billion, even as FHA market share and loan volume continues to be reduced (down to 13.9 percent according to U.S. Housing Market Conditions Report, 3rd quarter 2012).

For FHA's legacy loans, the President's budget forecasts the FHA Mutual Mortgage Insurance (MMI) Fund, which provides the fiscal capital to support FHA's single family and reverse mortgage guarantees, will use \$943 million of its mandatory appropriation authority to supplement its reserves at the end of fiscal year 2013. The MMI Fund currently has approximately \$32 billion in cash available to pay claims, so this is not a cash problem; it is one of setting the right size of loan loss reserves aside. The \$943 million figure is based on an annual Office of Management and Budget (OMB) re-estimate of the reserves FHA will need to hold as of September 30, 2013, for the payment of expected losses over the next 30 years on its portfolio of guaranteed loans as of last September, based upon Federal Credit Reform Act (FCRA) scoring. This potential appropriation is largely due to the existing reverse mortgage (HECM) portfolio. This product, particularly as it has been structured to date, is sensitive to home prices and economic conditions. This results in a negative value of \$5.248 billion and a disproportionately negative impact to the Fund from the HECM program. The actual need for a mandatory appropriation from the Treasury General Fund to the MMI fund will not be determined until September 2013, and will be based on FHA's realized revenues through the end of the fiscal year. Notably, any mandatory appropriation to FHA would not involve approval from Congress, as all Federal loan programs have this standing authority. As we consider this potential appropriation, let us not forget that FHA played a crucial, countercyclical role in bringing the housing market from the brink of collapse to a place where it is positive and growing again.

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 over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in severely inadequate conditions, it is 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 2014 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, 84 percent of HUD's total fiscal year 2014 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 this year, when HUD released its latest 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 43.5 percent in worst case needs renters between 2007 and 2011. This is the largest increase in worst case housing needs over a 4-year period in the quarter-century history of the survey. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget provides \$20 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 2014 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 (\$4.6 billion) and capital (\$2 billion) funds, a critical investment that will help approximately 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$10.3 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.

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:

- Enabling PHAs To Combine Operating and Capital Funds.*—To both simplify the program and reduce the administrative burden on State and local public housing authorities, 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 Public Housing Authorities 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 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 TBRA funding to augment case management and supportive services coordination provided through FSS or provide other supportive services to increase opportunities for residents.
- Expanding the Moving To Work (MTW) Program.*—The budget proposes to scale up the Moving To Work (MTW) program, which gives high-performing State and local public housing authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and public housing funds. In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs. In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

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. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on Federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and State entities to keep up with needed lifecycle

improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately \$26 billion, or \$23,365 per unit. Available funding is vastly insufficient to meet accruing needs of approximately \$3 billion per year. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory loses an average of 10,000 units annually through demolitions or dispositions.

Rental Assistance Demonstration

In addition to the public housing stock, the Rental Assistance Demonstration (RAD) program targets certain “at-risk” HUD legacy programs. The 24,000 units assisted under section 8 Moderate Rehabilitation (MR) are limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties. The approximately 21,000 units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) have no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expire, we can no longer depend on these projects to be available as affordable housing assets.

Conversion to long-term section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term section 8 rental assistance allows for State and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process public housing conversions of assistance without additional subsidy, HUD requests \$10 million in fiscal year 2014 for the incremental subsidy costs of converting assistance under RAD for very limited purposes. Such funding will be targeted only to public housing projects that are: (1) not feasible to convert at current funding levels; and (2) located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts. The Department estimates that the \$10 million in incremental subsidies will support the conversion and redevelopment of approximately 3,300 public housing units that would not otherwise be feasible to convert and sufficiently stabilize over the long-term, while helping to increase private investment in the targeted projects and surrounding neighborhoods.

In addition to the funding request, each of the legislative requests in the 2014 budget for RAD are designed to allow for maximum participation by those PHAs and owners whose current funding levels are sufficient for conversion. In the first component of RAD, an increase in the 60,000 unit cap to 150,000 units, and the exclusion of section 8 MR properties from the cap will both allow for a greater portion of both the public housing and MR stock that can convert at no cost to the Federal Government to participate in the demonstration.

Small Building and Housing Finance Agency Securitization

Nearly a third of the Nation’s renters, more than 20 million households, live in small, unsubsidized housing. These 5- to 49-unit properties tend to be owned by small businesses—the engines of our communities—and are typically more affordable to low- and moderate-income families. But these properties are at risk of continued disinvestment because they can be expensive to finance. Small building owners are less likely than other multifamily property owners to be able to secure financing to make repairs and improvements. Small properties are less likely to have mortgage financing (86 percent of large multifamily properties are mortgaged, compared to 61 percent of small multifamily properties). Just 14 percent of all fiscal year 2010 FHA-insured properties were for projects with fewer than 50 units.

To address this problem, the fiscal year 2014 budget includes a legislative provision to support small building finance, and to strengthen the Risk Share program as a rental finance tool, seeks Congressional authority for Ginnie Mae to guarantee securities containing FHA Multifamily Risk Share loans, thereby increasing liquidity and decreasing cost of capital. This proposal would apply to both State and local Housing Finance Agency Risk Share lenders under section 542(c) and new Risk Share lending under section 542(b). The proposal would also amend section 542(b) of the statute to allow for flexibility in how affordability is determined in order to make it a more effective tool to recapitalize existing naturally affordable 5-49 unit rental properties.

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 assistance and guidance from the Treasury Department and the Internal Revenue Service. It attracts 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 2014, as part of an ongoing effort to better 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 2014 budget update several revenue proposals that were included in the 2013 budget, and the budget also introduces two new proposals:

- A new proposal for Private Activity Bond Conversion authority that will create much needed flexibility in how States implement the LIHTC program. Specifically, this request will allow States to convert a portion of their tax-exempt Private Activity Bond authority (volume cap) into allocated (so-called 9 percent) LIHTCs to accomplish several goals. First, for many complex preservation projects this proposal eliminates the need for going through unnecessary bond issuance procedures, which reduces transaction costs. Second, not only does the proposal allow States to increase their pool of 9 percent credits, but it brings more projects into the competitive LIHTC allocation process. This effectively gives States more authority to better prioritize projects with limited resources. Third, it would let States avail themselves of the greater flexibility that they have to increase eligible basis (and thus to increase credits) for high-priority projects that are subject to the LIHTC allocation cap (as compared with projects subject to the tax-exempt bond cap).
- A new proposal for a Selection Criterion for Preservation of Affordable Housing. Adding this criterion to Qualified Action Plans under IRC Sec. 42(m)(1)(C) will encourage States to consider how to address the preservation needs of affordable housing.
- A modification and permanent fix to the Congress' temporary 9 percent credit floor provisions in HERA and the American Taxpayer Relief Act of 2012. This proposal to improve the computation of allocated credit rates will revise the present value formula for allocated LIHTCs to increase the annual credit percentage rate and more accurately reflect market practice.
- An income averaging proposal from the President's fiscal year 2013 budget that 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.
- A LIHTCs earned by Real Estate Investment Trusts (REITs) proposal from the President's fiscal year 2013 budget that 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.

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. The 2014 budget once again proposes \$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.

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 2014 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, which have led to nearly 20 percent reductions in veterans homelessness and a 10 percent reduction in chronic homelessness over the past 2 years.

Additionally, this work has 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 \$2.381 billion in Homeless Assistance Grants, including competitive programs that annually serve over 1.5 million 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 (in the form of a \$60 million set aside)—funded by the Recovery Act—that in the last 3 years alone has helped prevent or end homelessness for over 1.4 million people nationwide.

Moreover, HUD continues to focus on the unique needs of homeless 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 HUD's Veterans Affairs Supportive Housing (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 48,000 already allocated HUD-VASH vouchers, as well as the 10,000 vouchers that will be awarded through the fiscal year appropriation.

Investing in Leveraging and Serving Our Most Vulnerable

This budget provides a total of \$526 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes \$40 million to support 4,100 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 2014, 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.

GOAL 4: BUILD INCLUSIVE SUSTAINABLE COMMUNITIES FREE FROM DISCRIMINATION

The American economy suffers when significant numbers of its labor force experience individualized or systemic discrimination, or when families 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 2014 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 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 provide funding for locally driven solutions to overarching economic development challenges in areas of need. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—are focused on assisting areas of great need, including communities with high unemployment.

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

Through both formula and competitive grants, HUD has partnered with local organizations and State and local governments to fund innovative solutions to community development challenges. Underpinning these partnerships is the fundamental philosophy that local decisionmakers are best poised to drive a cohesive development strategy, based on a keen perception of local needs and priorities. In fiscal year 2014, HUD is requesting a total of \$3.14 billion in funding for the Community Development Fund. These programs aim to support economic development initiatives and projects that demonstrate the ability to connect private sector growth to some of our country's most distressed citizens and communities.

As part of CPD programming, the Community Development Block Grant (CDBG) remains the largest and most adaptable community and economic development program in the Federal portfolio for meeting the unique needs of States and local governments. Since its inception in 1974, CDBG has invested over \$135 billion in economic development at the local level, investing in infrastructure, providing essential public services and housing rehabilitation, and creating jobs primarily for low- and moderate-income families. In fiscal year 2014, HUD is requesting that \$2.8 billion in CPD funds be dedicated to the CDBG formula program. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes.

To begin to respond to concerns that CDBG formula funds need to be better targeted to need and be used more effectively, the budget proposes several reforms to the program. The budget includes changes to establish a minimum CDBG grant threshold and eliminate the community "grandfathering" provision. This will ensure that communities receive grants large enough to be effective in advancing the goals of the program. Local governments affected by these changes would not lose access to CDBG funding; funding would be available through an urban county or State-administered CDBG program. In addition to better targeting CDBG formula funds, the budget provides \$200 million in community development funding for a new competitive grant program targeted to areas hardest hit by the foreclosure crisis and specific activities that support neighborhood stabilization. Where appropriate, these grants will be linked to the above-mentioned Promise Zones initiative. HUD will seek input from stakeholders over the coming months regarding further programmatic changes that would improve the targeting of CDBG formula funds and strengthen their accountability and performance.

Often, CDBG dollars alone are not sufficient to complete crucial economic development projects that communities desperately need. In those instances, HUD offers another potent public investment tool in the form of the Section 108 Loan Guarantee program. Section 108 is the loan guarantee provision of the CDBG program and allows States and local governments to leverage their CDBG funds into federally guaranteed loans in order to pursue large-scale physical and economic investment projects that can revitalize entire neighborhoods or provide affordable housing to low- and moderate-income persons. In fiscal year 2014, HUD is requesting Section 108 loan guarantee authority of \$500 million and is proposing to implement a

fee-based program that will eliminate the need for budget authority to cover the program's credit subsidy.

Assisting Native Americans and Native Hawaiians

Through innovative programming, HUD has found new ways to partner with American Indian and Alaska Native tribal governments to help these communities craft and implement sustainable, locally driven solutions to economic development challenges. HUD recognizes the right of Indian self-determination and tribal self-governance, and has fostered partnerships that allow tribal recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. In most of these communities, housing and infrastructure needs are severe and widespread, disconnected from transportation networks and isolated from key community assets including jobs, schools and healthcare facilities. In fiscal year 2014, HUD is requesting a total of \$739 million to fund programs that will directly support housing and economic development in American Indian, Alaskan Native, and Native Hawaiian communities nationwide, including:

- \$650 million for the Indian Housing Block Grant program, which is the single largest source of funding for housing on Indian tribal lands today
- \$70 million for Indian Community Development Block Grants, a flexible source of grant funds for federally recognized tribes or eligible Indian entities, requested within the Community Development Fund.
- \$13 million for Native Hawaiian Housing Block Grant program, to develop homeownership units as well as support the prevention of foreclosures and the promotion of responsible homeownership.
- \$6 million for the Indian Housing Loan Guarantee Fund.

Transforming Neighborhoods of Poverty

The President has made it clear that we must build our economy from the middle class out. But that necessity is imperiled when 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, and 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 2014 budget provides \$400 million for the proven tools in the Choice Neighborhoods Initiative, to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public- and privately owned housing is located. Choice Neighborhoods—along with RAD—is an essential element of the President's Promise Zones initiative. This initiative will revitalize many of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, improving affordable housing, improving educational opportunities, and reducing violent crime. Promise Zones are key rungs on the Administration's Ladders of Opportunity initiative, which also includes raising the minimum wage, increasing access to high-quality preschool, redesigning America's high schools, and promoting fatherhood and marriage.

High-need communities will engage in an open, transparent, competitive process to apply for a Promise Zone designation. The Promise Zone designation process will ensure rural and Native American representation. If approved by Congress, Promise Zones will receive tax incentives to stimulate hiring and business investment, alongside with Federal partnership and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Promise Zones will be able to access investments that further the goals of job creation, additional private investment, increased economic activity, expanded educational opportunity, and reduction in violent crime. These could include Choice Neighborhoods at HUD, Promise Neighborhoods at the Department of Education, and Byrne Criminal Justice Innovation at DOJ. The Promise Zones initiative builds on the lessons learned from these existing place-based programs, for which the budget reflects increases in investment across agencies. Other Federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

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.

Helping Cities, Towns, and Regions To Plan Their Economic Future

The President is committed to making America a magnet for jobs. 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. When America's metropolitan areas and rural communities are struggling to rebound from the economic crisis and compete for jobs on a global scale, 20th century practices are just not sufficient to attract businesses that have the flexibility to locate wherever they see the potential to hire committed and skilled workers. Increasingly, mayors and business and community leaders are instituting and demanding new economic development approaches that simultaneously recruit businesses based on industry clusters, unique resources available in the community, and implement community development strategies that ensure that employees have affordable housing choices, can get to work quickly and affordably, and are able to enjoy a high quality of life.

The Office of Economic Resilience (OER), located within HUD's Office of Community Planning and Development, will foster and incubate innovative program, practice and policy throughout the Department and with other agencies by partnering with communities to:

- strengthen and diversify their economies in ways that allow them to effectively compete on a global stage;
- retain and recruit workers that demand high quality places with robust local services and amenities;
- address distressed and isolated neighborhoods that minimize access to opportunity for residents; and
- effectively align and deploy Federal, State, and local funding for development and infrastructure.

OER will work in partnership with other Federal agencies like the Departments of Commerce, Transportation, Agriculture and Energy, Health and Human Services, the Environmental Protection Agency, Small Business Administration, and others to build the capacity of local, regional, and State governments, community organizations and business leaders to prepare and execute data-driven community economic development and infrastructure investment strategies. OER will fund \$75 million in Integrated Planning and Investment Grants that will seed or enhance locally created, comprehensive blueprints that strategically direct public and private investments in development and infrastructure to projects that result in: attracting jobs and building diverse and resilient economies; significant municipal cost-savings; and stronger, more unified local leadership. These grants will create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use, and zoning ordinances that result in more resilient economic development, improve housing supply response to demand, and increase affordable housing near public transit. Integrated Planning and Investment Grants will incorporate some of the same features of the previously funded Regional Plans for Sustainable Communities and the Community Challenge Grants offered by the Office of Sustainable Housing and Communities, but using lessons learned from those programs and feedback from local leaders and Congress, will prioritize supporting actionable economic development strategies, reducing redundancy in federally funded planning activities, setting and monitoring performance, and identifying how Federal formula funds can be used smartly and efficiently in support of economic resilience. As with the previous efforts, priority will be placed on directing grants to rural areas, cities, counties, metropolitan areas and States that demonstrate economic need and are committed to building the cross-sector, cross-disciplinary partnerships necessary to tackle the tough decisions that help make places economically competitive.

We know how important these planning tools are to regional economies—particularly those that rely on integrated supply chains that cross national borders and how essential they are to meeting the President's charge to double U.S. exports over the next 5 years. These investments will leverage other Administration proposals (e.g., Infrastructure Bank, Project Rebuild) to help overhaul America's deteriorating infrastructure and increase residential and commercial construction around transit.

Ensuring Inclusive 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 is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In fiscal year 2014, HUD is requesting approximately \$44 million in FHIP funds, representing the Department's strong 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. In fiscal year 2014, the budget provides \$24.6 million in FHAP grants to 95 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.

Ensuring That an Economy Built From the Middle Class Out 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. HUD serves families in small towns and rural communities through almost every major program it funds. The State-administered Community Development Block Grants (CDBGs) provide approximately \$692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. HUD also funds over \$300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnership program, directly and indirectly supporting over 5,360 jobs.

As the single largest sources of funding for housing on Indian tribal lands today, programs like Indian Housing Block Grants, Indian Housing 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. Taken together, in fiscal year 2014 HUD is requesting \$739 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities.

In addition, HUD and the Department of Agriculture (USDA) meet regularly through an interagency rental housing policy group to better align and coordinate affordable rental housing programs. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher program, public housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes. 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.

HUD has also entered into a memorandum of understanding with the Department of Treasury's Community Development Financial Institutions Fund and the Depart-

ment of Agriculture—Rural Development, to expand the capacity of organizations providing loans and investment capital in underserved rural regions. The initiative, which is being piloted in colonias along the United States-Mexico border, will improve the delivery of funding from Federal agencies and private sources supporting small business, affordable housing and community facilities.

GOAL 5: TRANSFORM THE WAY HUD DOES BUSINESS

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a government that's leaner, smarter, and more transparent. 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, economic recovery, Hurricane Sandy 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 2014 budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

Investing in Our Staff

HUD's greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well. This is why HUD is providing its employees training and leadership development opportunities. In addition, many internal rules and regulations have become hurdles instead of being helpful. In response, HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. The Department is also in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority and flexibility to managers and provide better service to HUD customers.

In fiscal year 2014, HUD is requesting \$1.467 billion in salaries and expenses, including \$127.7 million for HUD's Office of Inspector General (OIG). This funding request represents just a 0.6 percent increase from the fiscal year 2012 enacted level, and reflects HUD's commitment to lean and smart management. The HUD request includes several initiatives to streamline the HUD organization, including restructuring the accounts, increasing training for our staff, and providing significantly more detail on how HUD staff supports programs and strategic goals. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules, and providing more oversight to our community grant programs. The Department will continue to improve operations and create a dynamic organization capable of addressing some of our Nation's most difficult challenges. 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. These roles require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners, including local officials, nonprofits, and faith-based organizations, among others.

Carrying Out Critical Program Demonstrations and Research

HUD's ongoing transformation 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. The Transformation Initiative (TI) remains the primary source of funding for this transformation. 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. Further, TI has provided a mechanism for innovative, cross-cutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes.

While the Department's transformation is a crucial long-term commitment, HUD continues to prioritize these efforts in a responsible manner that ensures HUD's constituent services don't suffer at the hands of internal transformation. This year's budget proposes a Department-wide HUD Transformation Initiative Fund to be

funded by transfers from program accounts of up to 0.5 percent at the Secretary's discretion. The 2014 budget requests transfers of \$80 million into its Transformation Initiative Fund for priorities such as:

Research and Evaluation.—To strategically increase efficiency and effectiveness of the Department's programs through examining policy questions and assessing program functioning and outcomes. TI-funded research complements the data infrastructure created through Research and Technology funding of national housing surveys. TI will support research priorities developed in a 5-year Research Roadmap by the Office of Policy Development and Research. The Roadmap reflects a year-long process of consulting with stakeholders about the research questions that are most relevant and crucial for housing and urban development policy and that HUD is best positioned to advance in a timely way. For example, one fiscal year 2014 priority project would refine HUD's utility models to enable the Department to more accurately account for energy usage in housing assistance programs in which utility costs are paid by tenants, and thereby help HUD to more effectively disburse funds for utilities that are actually consumed.

Program Demonstrations.—Demonstrations test new program approaches in a carefully structured and rigorously evaluated manner, and are essential mechanisms for evidence-based policy improvements. For example, the Rental Assistance Demonstration (RAD), approved in fiscal year 2012, supports the trial conversion of public housing and certain multifamily properties to long-term project-based contracts. TI will enable evaluation of outcomes. HUD is also proposing, within the Public Housing Capital Fund, a \$15 million pilot of the evidence-based Jobs-Plus Demonstration to increase the earnings and employment of public housing residents. A process evaluation conducted in tandem through TI will document successful local adaptations and how this larger scale implementation affects outcomes.

Surveys and Data Infrastructure.—The Office of Policy Development and Research (PD&R) also provides fundamental support for informed decisions by the Department and national policy makers through data collection and research dissemination. PD&R has a key role in the improvement of national housing data infrastructure and meeting other key national information needs. In fiscal year 2014, HUD is requesting \$50 million to fund the Nation's basic data infrastructure and share research knowledge on housing and community development. Complementing TI, this funding to support foundational housing market surveys continue the transformation of PD&R into the Nation's leading research organization addressing the wide array of America's housing and urban development challenges.

Delivering Strategic and Cross-Cutting Technical Assistance.—To ensure HUD's funds make the most impact in the communities where they are invested, HUD has shifted from making small investments in narrow, compliance-focused assistance to comprehensive, results-oriented capacity building that assists both grantees with deeply rooted management and financial challenges, as well as those driving innovation by being the first to implement new policies or programs. HUD delivers intensive, place-based technical assistance, working hand-in-hand with jurisdictions, housing authorities, and other stakeholders that are experiencing a range of capacity challenges. HUD also provides ongoing training and development on principles fundamental to operating housing and community development programs effectively, such as financial management and using data to drive decisionmaking. HUD's TA resources and training are increasingly offered online to make access easier for many stakeholders and to reduce the costs of providing TA.

Upgrading the Department's Information Technology Infrastructure

In fiscal year 2014, HUD is requesting \$285 million to support and modernize its information technology infrastructure. This request includes \$45 million for the development, modernization, and enhancement of key outdated systems; \$116 million for the operations and maintenance of our current systems; and \$124 million to complete the transition to our new IT Infrastructure system, HUDNET. In fiscal year 2014, HUD will focus our development efforts on transitioning the Department's IT infrastructure from the current antiquated environment to a modern, sustainable infrastructure, continued development of a modern financial management system that will improve HUD's ability to measure, track, and report on program costs and efficacy, and transitioning the current FHA systems to a modern platform. These changes will allow HUD to deliver services and manage its multi-billion dollar programs faster, more accurately and using better information for analysis. These funds are crucial to complement HUD's transformation efforts, providing resources for maintaining and improving Department-wide information technology systems.

CONCLUSION

Madam Chairman, this budget reflects the Administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the Nation's middle class, including providing ladders of economic opportunity for all Americans. 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 2014 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.

Senator MURRAY. Thank you very much, Mr. Secretary. And I will begin the questioning by talking about the status of FHA's Mutual Mortgage Insurance (MMI) Fund. Your budget states that \$943 million may be needed to cover expected FHA losses in the single-family insurance fund in the fiscal year 2013. That follows on the most recent actuarial report showing that the capital reserve account would go negative. Can you talk about how the condition of the fund has changed in the past year, and how HUD arrived at its 2013 shortfall estimate?

Secretary DONOVAN. Absolutely.

MUTUAL MORTGAGE INSURANCE FUND

I am glad you raised the actuarial report and where we are. Before that report and since, we have taken aggressive actions to protect the fund—five different premium increases, including most recently at the beginning of this month, that will help protect the funds. That leads to, obviously, the significant receipts we expect in the budget this year, the \$14.5 billion that I referred to.

What that shows you is that the new loans that we are making in the fund are the best quality that we have ever seen in FHA. And I do not believe, at this point, that we should be taking further steps to increase premiums. What we really should be focusing on are the loans that are causing the damage.

And those steps that we have already taken, as you can see, move us from a negative \$16 billion number that was in actuarial report to the under negative \$1 billion that we have in the President's budget.

The further steps that we need to be taking focus on the loans that are causing the deficit. If you just took out the reverse mortgage loans from the FHA fund, we would be in a positive \$4 billion—

Senator MURRAY. Why are these such a problem?

Secretary DONOVAN. Frankly, the program needs reforms. And unfortunately, we do not have the authority to implement those reforms without full notice-and-comment rulemaking. That is a process that could take 18 months. And one of the things that we are asking Congress to do as quickly as possible is give us the ability to make these changes to the program through a mortgage letter much more quickly rather than having to go through this full notice-and-comment rulemaking.

REVERSE MORTGAGE LOANS

The other thing I would say in particular is that, because of the nature of the reverse mortgage loans, they are more highly sensitive to changes in house prices. So the recent economic crisis and housing crisis has had a more severe impact.

So we need to change the Home Equity Conversion Mortgage (HECM) program. We are asking for the authority to do that as quickly as possible, in addition to the changes we have already made.

The second thing I would say is we need to continue to increase the collections that we can make on older loans outside of the HECM program. We made a number of changes this year. We are going to continue to do that, streamlining short sales, improving loan sales. All of those can bring billions of dollars to the fund. But we also need help from Congress in increasing our enforcement authorities; for example, allowing us to remove servicing from lenders that are not doing a good enough job helping homeowners and helping protect the taxpayer.

Senator MURRAY. Okay, I appreciate that.

Let me ask you about sequestration. You testified before the full Appropriations Committee a few weeks ago about the impact on HUD's programs and the people who rely on those. Those cuts have now been implemented with some real consequences. I am hearing a lot about this at home. I mentioned that in my statement.

Can you talk about how public housing authorities are responding to these cuts, and what is their effect, especially since this has come so late in the fiscal year?

Secretary DONOVAN. Absolutely.

SEQUESTRATION'S IMPACT ON PUBLIC HOUSING AUTHORITIES

First of all, and you really talked about this in your statement, Senator, more than 100,000 families that we expect to lose vouchers, and we have already seen—you talked about the example of King County, where families who are on the waiting list who would have gotten a voucher are going to remain at risk of homelessness in terrible situations by not getting that voucher.

But there are even more extreme examples around the country. We have identified over 700 housing authorities where, even if they fully draw down their reserves, stop leasing new vouchers, that we do not think will be enough. That means that they will literally have to start cutting off families from the program—

Senator MURRAY. Who are currently in section—

Secretary DONOVAN. Who are currently served, or other extreme measures, reducing payment standards and other things that would have direct impacts on families that are already severely stressed. And so we are most concerned about those.

In the most extreme example, and I know this is particularly important to you and the ranking member, we have seen housing authorities start to turn back their entire programs. In other words, they say we can't administer vouchers anymore.

Senator MURRAY. Because they do not have the personnel to do it?

Secretary DONOVAN. Because they do not have the ability to do it. Thirteen housing authorities in the first 3 months of this year, that is a more than tripling of the rate that we saw last year. And last year was already high because of the cuts that we have seen in prior—we even have housing authorities turning back VASH vouchers. Can you imagine a housing authority saying I can't serve a veteran of this country to get them off the street?

Senator MURRAY. Not because they don't have a population that needs it, but because they do not have the personnel?

Secretary DONOVAN. Absolutely. Only because they do not have the funding.

Senator MURRAY. Right.

Secretary DONOVAN. Now, beyond that, thanks to the work that you did in the recent continuing resolution, we have gone from expecting about 100,000 people in our homeless programs to be back on the streets—that is down to 60,000. So it is better than the 100,000, but it is still 60,000 people that could be hurt that way.

I would also just point to one other example. As Senator Blunt knows, Joplin is still recovering from the devastating tornado we saw there. You all worked hard to make sure that funding was available through the Sandy supplemental. We have allocated over \$100 million there to Joplin.

But we are going to see, just in the CDBG program, over \$800 million of cuts. We believe that is 20,000 jobs in reconstructing, not to mention the more than 10,000 families and businesses who may never get rebuilt as a result of that.

Overall, what we are talking about, and you pointed to this, just at a time when we are really seeing the economy with the ability to take off, just in HUD's budget, we are talking about 50,000 jobs lost from sequestration, combining both the supplemental funding and the work that we are doing across our other programs.

So these are real impacts on the middle class, on our most vulnerable families, and they are happening today, and they will continue to grow for the rest of the year if we do not reverse sequestration.

Senator MURRAY. Yes, and what I am seeing is the impact on the broader community, too. As I see that constriction, people are once again stopping spending. They are stopping expanding. It has had a real impact, so I appreciate your perspective.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman.

Mr. Secretary, I was very interested in the exchange that you had with Senator Murray about reverse mortgages, because over the past couple of years, a retired mortgage banker in Maine has repeatedly contacted me to express her well-informed view that, in many cases, our seniors are getting into these reverse mortgages, and they are turning out to be a disaster for them. And she keeps asking why isn't HUD doing more, why isn't Congress doing more, to regulate this financial product?

So it is very interesting to learn today, and to learn based on the Home Equity Conversion Mortgage program, I believe you called it HECM?

Secretary DONOVAN. HECM.

Senator COLLINS. HECM. That HECMs are contributing to the financial instability of FHA's MMI Fund due to factors that included longer mortgage terms than were expected, declining home values, and an increase in the number of homes conveyed to HUD.

So I was very glad when Senator Murray asked you about the impact of those reverse mortgages on the MMI Fund, especially since we are concerned about that fund drawing on the Federal Treasury.

But I am also concerned about the impact on seniors of the wider spread use of reverse mortgages.

For example, the surviving spouse of a borrower with a HECM insured loan, if not a party to the mortgage him or herself, must pay off the loan upon the mortgager's spouse's death. And I am wondering if the spouse even realizes that when the reverse mortgage is granted.

So what is HUD doing to ensure that borrowers and their spouses understand that consequence and other potential problems with getting a reverse mortgage? We see these ads on television. It sounds like it is the best thing since sliced bread, and yet, I am hearing that there are a lot of problems. And the fact that you are seeing such a negative impact on the MMI Fund suggests this is an area that we really need to look at.

HOME EQUITY CONVERSION MORTGAGE REFORM

Secretary DONOVAN. Absolutely. And just to take this specific point, Senator, about the spouse, this is an issue that does need work and clarification. We are asking for legislative language that would clarify this in our budget. But we have also made sure that, in the counseling that we require, that this is a much more clear focus when seniors are making a decision about whether to take a reverse mortgage or not.

I agree with you that we need to do more outreach and make it more clear. We do believe that it is important that a spouse should be on the mortgage, be not just a part homeowner but actually signed on the mortgage for the financial integrity of the program. But we also have taken a number of steps to create more options; for example, to create more flexibility to allow a sale through the estate to ensure that there are ways to recover short of foreclosure in those situations.

So both the counseling and the flexibility on sale are things that we have done. But we need the clarification legally to make sure we all understand, because there is pending litigation on this, and that has created a lack of clarity as well.

More broadly, I would just say, quickly, for the reverse mortgage program, we have taken a number of steps to create safer products. We introduced a safer version a few years ago. We have enhanced the financial tools in addition to counseling that we provide. And we are seeing significant improvement in loans that were originated after these changes were put in place in 2011. Using an apples-to-apples comparison, default rates have come down in half. So we are seeing improvements in the safety of the loans.

MORATORIUM ON FULL DRAW PROGRAM

But we are very concerned about what we call the full draw program. We have put a moratorium on that program to stop it. And we will only reinstitute it if we can get the legislative authority we need to make the changes quickly. Otherwise, it will take us, as I said, through full notice-and-comment rulemaking, probably 18 months or so to be able to institute those changes.

And unfortunately, if we do not have them sooner, we are going to have to take more drastic measures that would really harm the seniors that should have a reverse mortgage, where it can be a productive tool, because by the end of the fiscal year, we have to have the program back to making money. We have to have it with what we call negative credit subsidy, so have it be a profitable program for the Federal Government.

And the only way that we can do that without this legislative change is to impose significant changes on principal limit factors and other things that we think do more harm than good in some ways.

Senator COLLINS. Thank you for that response. That is something I am very interested in working with you and the chairman on.

I do recognize that a reverse mortgage can be very helpful to some of our seniors, but it seems to me it is fraught with risks for others. And the fact that your fund is being hit hard suggests that it is also fraught with risk for the Federal Government. And of course, those two facts are connected.

So I do think that we need to take a look at that.

Let me just touch on one other issue. The budget proposes to increase the loan guarantee commitment authority for FHA's General and Special Risk Insurance programs from \$25 billion to \$30 billion. And as you are well aware, Chairman Murray and I tried very hard to get this anomaly included in the continuing resolution. Unfortunately, we were unable to include provisions that could prove problematic to final passage, and this was one of them, although it should not have been, in my view.

This important program provides mortgage insurance for the construction of multifamily housing, hospitals, and healthcare facilities. Based on commitments recorded through January of this year, the total demand for mortgage insurance during this fiscal year is expected to exceed the commitment limitation available.

If funding is depleted, delays in the approvals of mortgage insurance could jeopardize construction projects that add jobs to our economy.

So my question for you, Mr. Secretary, is when do you anticipate that the program will reach its current limitation of commitment authority during this fiscal year, since we were unable to get it increased through the continuing resolution?

GENERAL AND SPECIAL RISK INSURANCE COMMITMENT AUTHORITY

Secretary DONOVAN. Based on our latest projections, we expect to run out of commitment authority and have to shut down the program in mid-August. So that would be 6 weeks before the end of the fiscal year.

Let me just be clear. There are three reasons why we should do this, and we want to push hard to get this. We have done this in past years. We want to get this done during the rest of the year.

First, and you made this point, that \$5 billion in commitment authority is 22,000 jobs. Second, we are also using that commitment authority to refinance existing loans that are already in the program to record low interest rates. That actually saves taxpayers money by making those loans safer going forward. Third, the new loans, that \$5 billion, will actually make the taxpayers about \$200 million, because those new loans we are making at the higher premiums that are charging today make money. And so, in lots of different ways, not doing this would be a real mistake.

Senator COLLINS. I completely agree with you, and it should have been done as part of the continuing resolution. We tried mightily to get it in there as an anomaly.

Secretary DONOVAN. I know you did, and I appreciate it. I think we know where the resistance has been. And I think if we work together—I certainly have had conversations already on the House side about this. I hope we can get there. We have been able to in the past, and really, for the private sector, in terms of these jobs and being able to move forward, it would be a shame at the time our housing market is recovering to reverse that progress.

Senator COLLINS. Absolutely. Those three arguments are very solid. Thank you.

Senator MURRAY. Senator Blunt.

Senator BLUNT. I thank the chairman.

Secretary DONOVAN, on the last page of the booklet I have here on fiscal year 2014, if I am looking at these figures right, it looks like to me that, in the billions, the number you had available in fiscal year 2012, was \$44.341 billion. The number you asked for 2014 is 10 percent higher than that.

What number did you actually wind up with available to you in 2013?

Is that \$44.615 billion what you had available or is that pre-sequestration?

Secretary DONOVAN. You are looking at 2013?

Senator BLUNT. I am.

Secretary DONOVAN. That is pre-sequestration.

Senator BLUNT. So how much did you—

SEQUESTRATION BUDGET NUMBERS

Secretary DONOVAN. So post-sequestration would be \$42.4 billion. And again, that is on a gross basis. Our receipts from FHA and Ginnie Mae total \$11.2 billion in 2013. So, on a net basis, it would be \$31.2 billion.

And I do not believe the table you have includes those receipts, if I am correct.

Senator BLUNT. I think it has \$11.204—

Secretary DONOVAN. Yes, I am sorry.

Senator BLUNT. A lot higher than 2012 and 2011, more than twice as high as 2012 and 2011.

Secretary DONOVAN. That is correct. And that is both due to the better quality of the loans that we are making, as well as the increase in premiums.

Senator BLUNT. And does that affect overall programs, or just the programs where those receipts come in?

Do you actually get to spend that money like it was other money available to you?

Secretary DONOVAN. Ultimately, that is up to the Congress to determine in the allocations for the budget, how much of those receipts would stay——

Senator BLUNT. What happened here? What happened here? Did you have \$11 billion more to spend on other things as supposed to the year before, where you had \$5.8 billion?

Secretary DONOVAN. Again, I do not have the discretion to spend that money. But it is a net benefit to the taxpayer. It does offset the cost of our programs. So Congress determines how to use those receipts.

Senator BLUNT. Okay, back to my earlier point then. Your total spending in fiscal year 2013 was higher even with sequestration than fiscal year 2012, because of those receipts?

Secretary DONOVAN. So with sequestration, it is about a \$1.9 billion reduction.

Senator BLUNT. Reduction.

Secretary DONOVAN. In gross spending. So that is the \$44.3 billion going down to the \$42.4 billion.

Senator BLUNT. Why did you decide to submit the numbers as if sequestration or the budget caps would not be utilized again this year? Was that the direction you got from the Office of Management and Budget (OMB)? Or did you decide that on your own?

Secretary DONOVAN. We wanted to provide both pieces of information.

Here is the reason, fundamentally. The President believes, I believe, that, as I said very clearly, that sequestration is damaging; it is not the right way to manage these programs; and that we should, before the fiscal year is out, we hope to reach a comprehensive agreement with Congress that would reverse sequestration and put in place a balanced deficit reduction plan. And, therefore, we think it is critical to look at not just where we are today with sequestration, but also to provide the information that shows where we would be without that sequestration, as well.

Senator BLUNT. But do you have a list of proposals to show where you would be with sequestration? I noticed the President yesterday, according to Reuters, had to submit a document that reduced his own budget he submitted the day before by \$91 billion, but with no particular prioritization, just taking it, I guess, out of the budget like sequestration.

You do know that is the law, of course?

Secretary DONOVAN. Obviously, it is the law, and we are living with the consequences.

In fact, if the——

Senator BLUNT. We also live with the consequences of not acting like it is the law. September 28, OMB sent out a document to you and everybody else that I put in the Congressional Record a couple months ago that said, spend your money beginning October 1 as if the law will not be followed. I think it actually said, “as if Congress will change the law,” which is, of course, a nicer way to say that.

But it would seem to me that we would want to set the priorities you want with the money you are likely to get, as opposed to the priorities you want with lines that will, in all likelihood, I believe, now will be cut. But that is just my view as opposed to yours.

Answer a question for me about veterans' housing, homeless veterans. You said you had 60,000 people unserved instead of 100,000? Was that the comment you made?

Secretary DONOVAN. That is in our homeless programs more broadly, not just—

Senator BLUNT. Not veterans. Homeless programs more broadly.

What did we do in the continuing resolution that allowed you to at least close 40,000 of that anticipated gap from 100,000 to 60,000?

SHORTFALLS UNDER SEQUESTRATION

Secretary DONOVAN. There was funding added to our homeless assistance grants that allowed us to renew more of the existing units that are there. We still are going to have to, if sequestration continues, and the continuing resolution, we are going to have to eliminate existing programs that house the homeless if sequestration is not reversed. And that would be about the 60,000 number that I cited.

Senator BLUNT. So the continuing resolution update was better for this program than if we had just continue to go with past priority-setting efforts.

Secretary DONOVAN. Senator, I would just add, to go to your question earlier, to be clear, we do believe sequestration should be reversed. We believe that is the right course. And the President is not going to give up on that.

But I would also say that if sequestration continues, it will make the budget picture worse next year and increase needs in many of our programs. Just to give you one example, if sequestration continues, we will go into next year with a \$1.2 billion shortfall in our project-based section 8 program. Those are contracts that we signed with private owners who manage housing that says here is the rent that they are entitled to. And so, for us to live up to those contracts, we are in a position, if sequestration is not reversed, where, in addition to the funding that we have here, is an additional \$1.2 billion that would be needed to live up to those contracts.

Senator BLUNT. And would those contracts be a priority?

Secretary DONOVAN. Absolutely. And as I said in my testimony—

Senator BLUNT. Absolutely. So why wouldn't you want to be dealing with this subcommittee to try to be sure we were helping you meet your priorities before you meet anything else?

Secretary DONOVAN. That is exactly why this was a priority for us in the budget as I laid it out. Eighty-four percent of our budget that goes to renewals is the top priority for us, and we have made sure in the budget for next year that every single family that is currently served could continue to be served.

Senator BLUNT. Well, I am sure you are not the only agency that has had to approach this, or decided to approach this, this way. But my sense would be that, at some point, we are either going to decide we are going to change the law, or it is actually the law, and

we all need to figure out how to deal with that as we are helping set priorities as opposed to vote for an appropriations bill that is going to be cut in areas that we wouldn't want it cut on a line-by-line basis, and other things that were new and aspirational might have had a broader debate if you knew they were truly areas that were going to be impacted by these funding programs.

Chairman, thank you for the time.

Senator MURRAY. Thank you. And I would just remind all of us that we are in a position now where we are trying to work between the White House, the House, and the Senate on what those levels are going to be. Meanwhile, we have to move our appropriations bills forward, and we are all trying to manage through that.

Mr. Secretary, in recent years, examples of housing authorities that misused Federal funds or failed to comply with important safety regulations have really highlighted the importance of oversight. As you work now to improve HUD's oversight, it is important to make sure we are not just adding new requirements or just asking for more information, but we are instead asking for the right information and using it effectively.

What steps are you taking to improve oversight and streamline reporting requirements and update regulations?

OVERSIGHT OF TROUBLED PUBLIC HOUSING AUTHORITIES

Secretary DONOVAN. Well, first, I would point to the critical section 8 reform legislation that we have proposed. As I said, we are looking at \$0.5 billion in savings just next year, \$2.7 billion over 5 years. That is enormously important. This does go to Senator Blunt's point as well.

There are important steps that we can take while serving the same number of families to lower costs in the programs.

We have also taken substantial steps to make sure that the minority of public housing authorities, the small number that are violating program rules, that are in serious difficulties, and are not living up to the standards that we have set, those troubled housing authorities, that we are focusing on them and either enforcing against them or working with them to correct those problems.

And I do think we are making progress there. If you go back to the beginning of administration, we had about 175 troubled housing authorities around the country. We are now down to 52. And I think that we will continue to make progress. We would be happy to provide more information on how we are doing that through our FARs effort.

We have over 100 teams around the country that are working with these housing authorities, both to enforce and to improve them.

We made enough progress that we have started working on the near-troubled agencies. We have seen about a 10-percent reduction in the number of those, and we are going to take additional steps. We are looking forward to seeing the results of those assessments this year to see if we made further progress. And we are actually going to go further upstream to those that are, for some reason, in the risk-ranking that we are doing, appear to be at risk of troubles.

So those are all important.

The other thing I would just make sure we understand here, HUD needs to live up to its responsibilities to oversee these housing authorities. But these are local entities created under State law with boards of directors, executives that have authorities for oversight themselves. And we are going to be aggressive, and we have been aggressive, in going after individuals who are not living up to their standards and also that may be violating our rules.

We are debarring and taking other steps against individuals who are not living up to their responsibilities. We need to make sure that local responsibility is met.

Just the last thing I would say is, even where these folks are doing a great job—you mentioned Steve Norman in King County. Senator Collins mentioned the improvements that we have made in the Maine State Housing Authority. They are also not magicians. And when you are operating at under 70 percent of administrative fees, we have to recognize that the risk here, no matter what we do to make the programs more efficient and effective, is that oversight will fail, that we will get more units, because there are not capital funds to fix them up, that are not in decent condition.

And so while we do everything that we can to create more flexibility, the fungibility between operating and capital fund is a good example in our budget, to increase oversight, there is a limit as to what we can do. And even some of these efforts we would like to undertake, we will have to put aside or delay, given the funding levels that we have.

Senator MURRAY. An excellent point. And on the local governance issue, that really is important. And I would like to work with you and the inspector general on ways to improve the ability of housing authorities and other governing boards to identify some of these problems.

I want to quickly talk about some of the new initiatives. As I have traveled around my home State, I have been excited to see some of the partnerships housing providers have created to address the housing and service needs of people seeking assistance.

Tacoma, King County housing authorities are doing really great and exciting work around education. Longview and Walla Walla in my State are doing some really great work with our veterans' groups. Seattle's Yesler Terrace project supported by Choice Neighborhoods involves partnerships with schools, community colleges, local employers. And that project is going to redevelop housing and the whole surrounding neighborhood, while also increasing opportunities for families living in them.

Your budget proposes to make a significant investment in Choice Neighborhoods, and I wanted to ask you, how does Choice encourage the kind of partnerships and leveraging happening in Seattle?

CHOICE NEIGHBORHOODS

Secretary DONOVAN. Yes, I very much appreciate you raising this because the President strongly believes that we can reach our balanced deficit reduction while still investing more in the programs that are going to create jobs and growth, and help people be ready for those jobs through these Ladders to Opportunity.

And I would just quibble a little bit with your use of the term "new initiatives." I do want to be very clear that everything in this

budget, whether it is in Choice Neighborhoods, the Neighborhood Stabilization Investment, Jobs-Plus, some of the other things that you mentioned, those are all things that are tested at this point and that we have done.

We are proposing an effort to coordinate these better through Promise Zones, but it is not a new program, in the sense that it is simply scaling up existing initiatives or things that we have proposed before.

One of the things that I think is so impressive about Choice Neighborhoods—and you have seen it directly, just about anybody who goes to see the transformation of these neighborhoods—is that they have enormous leveraging of what work is being done, whether it is at the Department of Education, that is why we want to link up with their Promise Neighborhoods effort. But it also brings so much private capital.

So just take the nine grantees that we have done so far in implementation grants for Choice Neighborhoods. They have raised over \$2 billion in capital for investment and job creation. That is over eight times a multiple of the money that we have put in on the Federal side.

So some people might say, well, we ought to put this money into the regular capital fund account. But I think we can get more bang for the buck if we put it into Choice Neighborhoods and leverage all of this other private capital that can go to work creating jobs.

The other thing that it recognizes is, what is the cost of the child that grows up in that neighborhood and ends up in a homeless shelter, that ends up not being able to get a job because they are not getting a decent education?

Senator MURRAY. Never finishes, yes.

Secretary DONOVAN. We estimate that the 20 percent of kids growing up in poverty in this country costs us \$0.5 trillion a year in lost productivity and wages.

And that is a cost that we have to avoid. And that is why the President focused on this Promise Zones coordination effort, to make sure that not only we are giving these kids a chance, we are living up to the American promise, but that we are also avoiding those enormous costs of failure.

Where are our future workers going to come from if we are leaving all these kids behind? And that is a cost we can't afford to bear.

Senator MURRAY. Right. Well, I really appreciate that. And as I have seen in my State, the partnerships that are created through these initiatives really do make a difference.

Secretary DONOVAN. Seattle Housing Authority Yesler is a terrific example.

Senator MURRAY. Great example, yes.

Senator COLLINS.

Senator COLLINS. Thank you, Madam Chairman. Madam Chairman, I am going to submit the remainder of my questions for the record, because I think if I get into a long exchange, we will get into the vote that is coming up very shortly, which probably makes the Secretary very happy. But I do want to make one—

Secretary DONOVAN. This is one of the few hearings I love spending time in.

Senator COLLINS. He is tactful as well.

I do want to say that the budget presentation—and this isn't just HUD's, it is across the board. Because of the way it was done this year, comparing to fiscal year 2012 rather than to the enacted sequestered amount, is extremely confusing.

I had to have my staff write out for me, and HUD's is even more confusing because you have offsetting receipts, which a lot of agencies and departments don't. So I had to have them write out for me fiscal 2012 enacted, then what is the amount with receipts; fiscal 2013, the sequester year, what is the amount with receipts; fiscal 2014, what is the request and what is the amount with receipts.

And I think to prevent confusion as we begin marking up and putting together a bill, we need a clearer chart from you. I mean, you can glean it from some of this, but it isn't easy.

And I suspect that that is because you were instructed by OMB to pretend the sequestration is going to go away and do your comparisons to fiscal year 2012.

Is that an accurate assumption on my part, or can we get a more straightforward chart?

Secretary DONOVAN. I will hand you this in about 30 seconds when we finish. So, yes, we do have that.

And look, obviously, we want to provide whatever information you need to make decisions.

I do think it is a fundamental point here that the President believes, we all believe, that sequestration is not the right policy, and that we ought to reverse it, that we can reverse it. And particularly building into our budget, for instance, this \$1.2 billion hole for project-based section 8, if we believe we can get there and not have that was not just a "we were instructed" but it was a policy choice that we made that we fully believe in.

Senator MURRAY. Can I just say that this is all going to have to be resolved? The House is looking at a different number than the Senate, and, at some point, we are going to have to have an agreement.

But we are moving forward as if we are enacting a budget that has—well, we will hear from our chairman of the Appropriations Committee what exactly our subcommittee allocations are. But they have to move forward now. We can't wait for several months for the budget to be decided between the House and the Senate.

So this will all come to a head at some point, but I think we are trying to manage between the guesses at this point.

Senator COLLINS. And I agree with that, and I also am no fan of sequestration. We do need to reduce our spending. But to do these mindless automatic meat axe cuts does not reflect priority setting, which is what we are supposed to do.

But that doesn't mean that we shouldn't be looking at budget constraints and reduce spending.

I am just trying to figure out what the real numbers are here and you need to make that—

Senator MURRAY. So is the Appropriations Committee chairman.

Senator COLLINS. You need to make that easier for us, not harder, just by your views on sequestration, which I may well largely share, and despite the hope that this goes away and that we come up with a more rational priority-based budget.

But it truly was extremely difficult to follow the figures.

RENTAL ASSISTANCE DEMONSTRATION

Secretary DONOVAN. I apologize. And I also just would say, to thank you, Senator and the chairman, for the remarkable way that we have worked together on some of these.

Let me just give you one example. You talked about, are there smart things that we can do to save money, consolidate programs? Last year, you gave us the authority to begin our RAD, Rental Assistance Demonstration. We have already gotten either commitments or letters of interest to convert to the section 8 platform from two-thirds of all the units across the country in two of the legacy programs—we call them orphan programs, about 14,000 apartments across the country—that we should be looking to move to a platform.

We have 13 different rental assistance programs. With what we are proposing in our budget, I think we could easily complete that conversion and end up with fewer programs with no additional appropriations, no other work.

So I do think that there are lots of things that we can continue to do, as you say, not with the meat axe, not with these—as Senator Graham said the other day, he asked all of his witnesses, so you are saying this is stupid, sequestration? We sort of looked at each other, is this a trick question? But yes, it is.

There are smart ways we can do this, and we have been able to do that in the past. We did it last year, and I am sure that we can continue going forward in making those smart decisions while not hurting the veterans, the families, the seniors, the people with disabilities that so often depend on our programs.

Senator COLLINS. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. Thank you. And I do have additional questions I will submit for the record and remind my colleagues that we will leave the hearing record open for 1 week for additional questions.

And, Mr. Secretary, thank you so much again for your incredible work on this. We look forward to working with you as we work through the numbers.

Secretary DONOVAN. Thanks for your partnership.

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

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

SUPER STORM SANDY

Question. Super-Storm Sandy's wrath had a measurable impact on residents of Maryland, and especially on the residents of Garrett County. Maryland suffered a double whammy. Our coastal areas along the beloved Chesapeake Bay and the Atlantic Ocean were hit by the hurricane. In Garrett County, called the Switzerland of Maryland, we were hit by a blizzard.

Homes were destroyed or damaged, nearly all of the county lost power for a week. More than 100 people had to stay in shelters during the storm. Fallen trees, debris, and power lines blocked almost all of the county roadways.

Fire companies were not able to respond to several structure fires because of the blocked roadways. The county lost their primary and backup 911 call center for 5 days. And the local hospital operated on Code Yellow Divert (critical patient intake only) for 4 days during the storm.

30,000 people live in Garrett County, almost 10 percent below the poverty line, and almost 15 percent are seniors. Residents have experienced significant costs after

electrical masts were ripped from homes during the storm. Electrical companies repairing the lines will not hook up homes to power until residents repair electrical masts at their own expense.

My first legislation as Chairman of the Appropriations Committee was taking over the disaster spending bill to get it passed into law. And the Sandy Task Force has been hard at work. The TV cameras have left, but the compelling human need has not.

Secretary Donovan, I'm grateful for the work that you and the Task Force have been doing, and I appreciated it when you assured me at the last hearing on Super-Storm Sandy that Community Development Block Grant Program Disaster Recovery (CDBG-DR) funds could help "fill gaps" for areas that didn't get Individual Assistance (IA) from the Federal Emergency Management Agency (FEMA).

I'm concerned that IA qualification may act as a barrier to Garrett County getting the help it needs for its poor and elderly residents.

Will you work with me and my staff to ensure that the county gets the help that it needs in the coming rounds of CDBG-DR funding releases?

Answer. Madam Chairwoman, please be assured that the Department is evaluating the full range of recovery needs associated with Hurricane Sandy and will be making additional allocations of CDBG-DR funding in response to these needs. I would appreciate the opportunity to better understand the needs in Garrett County as a result of Hurricane Sandy and would be happy to have our CDBG disaster recovery staff meet with Garrett County officials and work with you and your staff to ensure that we fully understand the scope of the county's unaddressed recovery needs.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY ACTION PLAN

Question. On March 28, I signed a letter urging the Department of Housing and Urban Development (HUD) to quickly review New Jersey's proposed Community Development Block Grant (CDBG) Disaster Recovery Action Plan. As you know, the \$1.8 billion in Federal disaster recovery aid that is the subject of the plan cannot be distributed until HUD approves the plan. When will HUD complete its review?

Answer. The Department completed its review of the State of New Jersey CDBG disaster recovery action plan in late April and approval of the plan was announced on April 29, 2013. Both State officials and HUD have signed the initial grant agreement and funds are currently available to the State.

CDBG DISASTER RECOVERY FUNDING

Question. On March 5, HUD issued a notice regarding the criteria for the initial allocation of \$5.4 billion in Community Development Block Grant (CDBG) disaster recovery funding. This notice prohibited the use of these funds to cover costs incurred by privately-owned, but publicly-regulated electric utilities in response to Superstorm Sandy. In previous disasters, these entities did qualify. This change in precedent will likely result in increased electricity bills for New Jersey residents and could hurt the ability to strengthen critical power infrastructure. Will HUD include privately-owned, but publicly-regulated electric utilities as qualified CDBG recipients in the next allocation to protect New Jersey ratepayers from rate increases?

Answer. In its December 7, 2012, request to Congress for assistance in response to Hurricane Sandy, the administration indicated its intention to limit Community Development Block Grant disaster recovery (CDBG-DR) assistance to for-profit entities solely to small businesses. This position is reflected in the Federal Register Notice that HUD issued on March 5, 2013, governing the use of CDBG-DR funds. The Federal Register Notice defines "small business" by applying Small Business Administration definitions as found in 13 CFR 121. The Notice also specifically prohibits the provision of CDBG-DR assistance to privately owned utilities for any purpose. The Department will consider the full range of recovery needs when establishing requirements applicable to future CDBG-DR allocations in response to Hurricane Sandy but will remain consistent with overall administration policy in the use of these funds.

CDBG DISASTER RECOVERY ACTION PLAN

Question. New Jersey's proposed Community Development Block Grant Disaster Recovery Action Plan provides \$825 million to assist homeowners, while providing only \$254 million to rebuild rental housing. This allocation has raised concerns because 43 percent of New Jersey households registering for Federal Emergency Man-

agement Agency (FEMA) assistance as a result of Sandy are renters, and many are low-income families. Will you commit to carefully reviewing New Jersey's plan to make sure that all families in New Jersey—both renters and homeowners—get the help they need?

Answer. The New Jersey CDBG-DR action plan approved by HUD on April 29, 2013, directs approximately 33 percent of housing program funds to multifamily/rental properties uses. This represented an increase of 5 percent from the State's initial proposed allocation to multifamily/rental purposes. The Department has conducted its own analysis of the owner/renter split in the FEMA data and believes the State's allocation of 33 percent for multifamily/rental purposes is consistent with the data.

Question. Superstorm Sandy damaged more than 800 public housing units in my State, displacing 100 families. New Jersey's proposed Community Development Block Grant Disaster Recovery Action Plan sets aside only \$5 million to support public housing unit repairs. I am concerned that—because of the pre-existing backlog of public housing capital repair needs—this amount may be inadequate. What share of the Sandy-damaged public housing units in New Jersey will it be possible to restore to a state of good repair with this and other anticipated Federal funding?

Answer. As part of the Department's review of New Jersey's CDBG-DR action plan, HUD discussed with State officials the proposed public housing allocation of \$5 million. The Department is pleased to report that as part of the HUD-approved action plan, the State increased the public housing allocation from \$5 million to \$20 million. Further, the State is committed to reassessing public housing recovery needs as additional information becomes available and additional allocations are made by HUD.

PUBLIC HOUSING DRUG ELIMINATION PROGRAM

Question. Prior to 2002, public housing authorities were able to fund safety, security, and drug- and gang-prevention activities through the Public Housing Drug Elimination Program, which I created. That program was eliminated by the Bush administration. In the absence of dedicated funding, how is your agency working with public housing to make their facilities safe and drug-free?

Answer. Annually a portion of the Emergency/Disaster set aside within the Capital Fund is made available for funding safety and security grants. This funding provides assistance to public housing agencies for emergency capital needs including safety and security measures necessary to address crime and drug-related activity.

Emergency safety and security grant funds may be used to install, repair, or replace capital needs items including, but not limited to the following:

- security systems/cameras;
- fencing;
- lighting systems;
- emergency alarm systems;
- window bars;
- deadbolt locks; and
- doors.

Outside of the Safety and Security set-aside competition, physical improvements to the property, such as fencing, security cameras, or additional lighting, are eligible Capital Fund modernization activities under current laws and regulations. Public housing agencies (PHAs) can also use their Operating Fund subsidy for “anticrime and anti-drug activities, including the costs of providing adequate security for public housing residents, including above-baseline police service agreements.” (U.S. Housing Act.)

PUBLIC HOUSING AUTHORITIES—EMERGENCY CAPITAL NEEDS

Question. In fiscal year 2013, Congress allocated up to \$20 million for grants to public housing authorities to address emergency capital needs, including “safety and security measures necessary to address crime and drug-related activity.” Of the \$20 million emergency capital needs allocation, what share has HUD set aside for safety and security measures?

Answer. The Department plans to set aside \$3 million initially for safety and security measures. At the end of the fiscal year, if funds remain that were not awarded for emergencies/disasters, the Department will make additional safety and security awards for applications that were received and determined to be eligible, which could not be funded due to the limited funds.

QUESTIONS SUBMITTED BY SENATOR DANIEL COATS

BETTER STEWARDS OF TAXPAYER DOLLARS

Question. We are operating during a time where the game has changed. Instead of coming here every year in the Appropriations Committee and asking “how much more are we going to spend this year?” we are faced with a fiscal crisis which requires us to ask “how can we take better care of the taxpayer dollars that are being sent here?” We must all ask how we can better manage and oversee Federal departments. How we can separate the essential projects from the projects we’d like to do but can’t afford it right now from the projects where we ask “why are we doing this in the first place?” Please describe how you are working to save money in the Department of Housing and Urban Development (HUD). Furthermore, please explain how you are working to prioritize funding requests for essential programs instead of programs that don’t seem to work very well.

Answer. The Department strongly shares your belief of the importance of credible stewardship of taxpayer funds, particularly in the difficult fiscal environment for discretionary programs. The Department is proposing several significant cost savings proposals identified below as well as policy changes that will further strengthen our successful program efforts.

As you would agree, HUD’s mission—to create strong, sustainable, inclusive communities and quality, affordable homes for all—is crucial to our Nation’s well-being, particularly at a time when nearly 8.5 million households were found to have worst case housing needs in 2011, an increase of about 1.4 million in only 2 years, largely reflecting the lack of affordable housing. These very low-income renters do not receive government housing assistance and either paid more than half their monthly incomes in rent, lived in substandard housing, or both. Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas, and were found across various household types, including families with children, senior citizens, and persons with disabilities. Without HUD assistance, a fiscal year 2011 HUD study projected that 68 percent of the tenants we assist would be added to the worst case housing needs rolls.

To help address the affordable housing need, HUD dedicated a majority of its fiscal year 2014 funding request to serve families with the greatest financial needs and support those most vulnerable. More than three-quarters of HUD’s fiscal year 2014 budget request will provide rental assistance to almost 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs. Also, more than three-quarters of HUD-assistance households are extremely low-income—i.e., below 30 percent of area median income, and over 65 percent of HUD-assisted households are elderly and disabled.

Key contributing programs that support affordable housing development, preservation of existing units and past investments, or rental assistance to low-income families and associated cost savings efforts:

—*Tenant-Based Rental Assistance (Fiscal Year 2014 Request—\$19.9 Billion).*—The section 8 Housing Choice Voucher program is the Federal Government’s major program for assisting very low-income families, the elderly, and persons with disabilities to afford decent, safe, and sanitary housing in the private market. The program currently serves almost 2.2 million families. At the same time, the fiscal year 2014 request supports approximately 700,000 landlords and property owners who participate in the program by providing a fair market rent so that they can meet mortgage payments, local tax obligations, utility expenses, and maintain properties in good physical condition.

The overall requested amount reflects \$235 million in anticipated savings in 2014 from proposed changes to income targeting that will increase the eligibility of more working poor families, particularly in rural areas (\$155 million), the increase in tenant income contribution from raising the medical expense exclusion threshold from 3 to 10 percent (\$30 million), and a change in how utility allowances are determined in the cases of families who rent units that are larger than the bedroom size of the voucher for which they qualify under the public housing agency (PHA) subsidy standards (\$50 million).

—*Project-Based Rental Assistance (Fiscal Year 2014 Request—\$10.3 Billion).*—The Project-Based Rental Assistance program provides rental assistance for eligible tenants residing in specific multifamily rental developments. This program serves approximately 1.2 million low-income and very low-income households that are primarily seniors, families with children, and persons with disabilities. The overall request reflects \$240 million in anticipated savings from policy changes that apply residual receipts accounts to offset assistance payments for

new and old regulation contracts (\$105 million); require the appraiser for certain owner-commissioned rent comparability studies to provide additional support to justify the conclusions of the study (\$35 million); limit rent levels for certain contracts renewed for projects with current rents that exceed market rents (\$8 million); reduce the time period over which an owner may claim vacancy payments from 60 days to 30 days (\$7 million); and increase tenant income contribution from raising the medical expense exclusion threshold from 3 to 10 percent (\$85 million).

—*Public Housing (Fiscal Year 2014 Request—\$6.6 Billion).*—The Public Housing program provides affordable, publicly owned housing units to approximately 1.1 million families who cannot afford or will not be served by housing in the private market, 60 percent of whom are fixed-income seniors or families in which the head-of-household is a disabled person. The Public Housing Capital Fund serves as the primary source of funding for public housing rehabilitation and development, and the Public Housing Operating Fund provides the operating subsidy payments to public housing authorities for the operation, management, and maintenance of the rental housing.

—*Moving To Work*—The fiscal year 2014 budget proposes to scale up the Moving To Work demonstration in which high-performing State and local public housing agencies are given various flexibilities in operating their public housing programs. In exchange for this flexibility, public housing agencies help design and test innovative policies that use Federal dollars more efficiently, help residents become self-sufficient, streamline and consolidate program delivery, and reduce long-term costs.

—*Rental Assistance Demonstration.*—The Rental Assistance Demonstration, enacted in 2012, targets HUD-assisted properties that are at risk of being lost from the Nation's affordable housing stock inventory. It allows the conversion of public housing and other HUD-assisted properties to long-term, project-based section 8 rental assistance as a tool for public housing agencies to leverage private debt and equity to address their properties' immediate and long-term capital needs, estimated at approximately \$26 billion (2010). The fiscal year 2014 budget requests \$10 million for targeted expansion of the demonstration to public housing properties in high-poverty neighborhoods, including designated Promise Zones where the administration is also supporting comprehensive revitalization efforts.

—*Homeless Assistance Grants (Fiscal Year 2014 Request—\$2.4 Billion).*—The administration is committed—through Opening Doors: Federal Strategic Plan To Prevent and End Homelessness—to ending chronic homelessness by 2015; homelessness among veterans by 2015; and homelessness for families, youth, and children by 2020, and setting a path to ending all types of homelessness. This commitment has already resulted in a decrease in the number of chronically homeless persons by 19.3 percent since 2007. Chronic homeless are the most expensive portion of the homeless population. Homelessness among veterans has declined by 7.2 percent between January 2011 and January 2012. In addition, as of April 2012, almost 40,000 veterans have been housed with a HUD-Veterans Affairs Supportive Housing (VASH) voucher, funded through the Tenant-Based Rental Assistance program. The fiscal year 2014 budget request maintains the approximately 325,000 HUD-funded beds that assist the homeless nationwide, expands rapid re-housing and permanent supportive housing, and targets—through HUD-VASH vouchers—chronic homeless veterans.

—*Housing Opportunities for Persons With AIDS (Fiscal Year 2014 Request—\$332 Million).*—This program provides housing assistance and supportive services for very low-income persons living with Human Immunodeficiency Virus (HIV) infection who are at risk of homelessness. The budget—through a forthcoming legislative proposal—modernizes the program to improve targeting of resources by basing the funding formula on Centers for Disease Control and Prevention (CDC) data on persons living with HIV/AIDS rather than cumulative AIDS cases, and by incorporating local housing costs and poverty rates into the formula.

The remainder of HUD's fiscal year 2014 budget is dedicated to capital grants, which are used by communities to develop and repair affordable housing or support economic development activities and infrastructure, and other diverse initiatives, including service coordination, Fair Housing and Equal Opportunity, Healthy Homes and Lead Hazard Reduction, to name a few. In fact, the budget reflects some of the tough choices that needed to be made in the capital grant programs, for example. The budget provides \$950 million for the HOME Investment Partnerships Program (HOME), 5 percent below the 2012 enacted level, in addition to proposed amendments that would improve the targeting focus and effectiveness of the overall pro-

gram at the constrained resource level. The budget provides \$2.798 billion for the Community Development Block Grant formula allocation, which is a \$150 million reduction for formula allocation purposes in comparison to fiscal year 2012. Doing more with less, however, the budget proposes several reforms to improve targeting and the effectiveness of this program, including changes to the allocation process.

Also, HUD's Transformation Initiative (TI) Fund remains the primary source of funding for HUD's multi-year effort to fundamentally transform the agency through the use of evidence and improved partnership with the Department's grantees and other partners. The TI Fund enables HUD to initiate projects that re-engineer fundamental business processes, streamline programs and operations, enhance accountability and respond to cross-cutting and urgent challenges more nimbly and effectively. Transformation Initiative priorities are: (1) research and evaluations to build a foundation of current data on program effectiveness and emerging policy issues; (2) program demonstrations to test new program approaches in a carefully structured and rigorously evaluated manner; and (3) technical assistance to diffuse evidence-based innovation and support State and local partners to improve their capacity to use public resources effectively. In addition, HUD will focus its information technology development efforts on modernizing the Department infrastructure, including the continual development of a modern financial management system that will improve HUD's ability to measure, track, and report on program costs and efficacy. These information technology investments will allow the Department to deliver services and manage its multi-billion dollar programs faster, more accurately, and using better information for analysis.

Finally, the Department is taking steps to protect the Federal Housing Administration (FHA) fund, reduce risk, and modernize the FHA. The Administration projects that the FHA will insure \$199.3 billion in mortgage loans in 2014, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA's loss mitigation program minimizes the risk of financially struggling homeowners going into foreclosure. Recent increases in FHA premium levels will boost FHA's capital reserves and increase Federal revenues. In addition, legislative proposals would provide additional authority to ensure that FHA borrowers are receiving the level of delinquency assistance needed from servicers, and stronger and more flexible enforcement authorities so that FHA can better identify non-compliance and poor performance and take action to avoid losses.

HOUSING ASSISTANCE PROGRAMS

Question. In 2012, the Government Accountability Office (GAO) found the Federal Government is operating 160 housing assistance programs and tax expenditures within 20 Departments and agencies costing about \$170 billion.¹ Despite these programs, homeownership rates fell to a 17-year low in the third quarter of 2012. The effectiveness of the programs is also often inconclusive. What is HUD doing to address this puzzle of 160 overlapping and duplicative programs?

Answer. The Department has numerous examples of the effectiveness of its housing assistance programs. In the absence of these programs, for example, many of the Nation's most vulnerable families would be at imminent risk of homelessness, there would be far fewer affordable housing units, and many of the current first-time and minority homeowners might not own homes with affordable, sustainable, fair, and transparent mortgages. Below are key examples of the broad reach and success of HUD's major housing programs. In an accompanying question, we have also provided reforms and savings proposals included in the President's budget for various HUD programs. The Department recognizes that each spending and tax expenditure program is enacted into law by Congress and reflects commitments to broader housing by goals and involves specific mission and individual program designs. Finally, the Department does not target a specific individual homeownership rate but is committed to providing a strengthened mortgage and housing environment that supports and expands appropriate homeownership including targeting to low-income and other populations who with proper assistance can responsibly participate in the opportunities afforded through homeownership.

HUD Programs Support and Sustain Homeownership.—Federal Housing Administration (FHA) financing was used for 27 percent of home purchase loans in 2011, including an estimated 41 percent of first-time homeowners. 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. According to the latest Home Mortgage Disclosure Act data, half of all African Americans who purchased a home in 2011, and 49 percent of Hispanics, did so with FHA financing.

¹ <http://www.gao.gov/assets/590/588818.pdf>.

Between April 2009 and February 2013, more than 6.4 million foreclosure prevention actions were taken—including nearly 1.7 million FHA loss mitigation and early delinquency interventions and 1.5 million homeowner assistance actions through the Making Home Affordable program, including more than 1.1 million permanent modifications through the Home Affordable Modification Program (HAMP)—saving these households an estimated \$18.5 billion in monthly mortgage payments.

HUD Programs Produce Desperately Needed Affordable Housing Units.—HUD's HOME Investment Partnership Program completed 1,095,946 affordable units in the past 20 years, of which 460,692 were for new homebuyers, 212,100 were for owner-occupied rehabilitation and 423,154 were new and rehabilitated rental units. Thirty-seven percent of those assisted by HOME with affordable rental housing between 2008 and 2012 were extremely low-income families (families with incomes below 30 percent of area median income).

HUD Programs House Vulnerable Families.—The Housing Choice Voucher (HCV) program helps 2.2 million low-income families afford decent housing in neighborhoods of their choice. This program serves the most economically vulnerable families in the country, including families with disabilities, elderly families, formerly homeless veterans, and families with children. Of the families currently receiving HCV assistance, 78 percent are extremely low-income, with incomes at or below 30 percent of the area median income, 40 percent have a disabled head of household, and 18 percent are elderly families.

Many families assisted by the program formerly experienced worst-case housing needs and without the benefit of this program would be at immediate risk of homelessness. The most recent Office of Policy Development and Research (PD&R) report estimated there were nearly 8.5 million families with worst case housing needs in 2011—an increase of about 1.4 million in only 2 years. A family is defined as having a “worst-case” housing need if it pays more than half of its income toward rent or lives in severely inadequate physical conditions, or both (Worst Case Housing Needs 2011: A Report to Congress—Summary (2013). Department of Housing and Urban Development, Office of Policy Development and Research).

HUD GRANT CRITERIA

Question. HUD provided a Community Block Development Grant (CDBG) in the amount of \$505,000 to Sergeant's Pet Care Products, Inc. which specializes in pet shampoo and toothpaste.² This company was expected to bring in \$140 million in revenue in 2012.³

Secretary Donovan, how is HUD working to ensure that its grant awards are focused on worthwhile projects? Do you believe that we should provide awards of over half a million dollars to private companies with revenue over \$100 million?

Answer. Loans to for-profit entities are statutorily eligible activities under the Community Development Block Grant (CDBG) program. The State of Nebraska uses a portion of its annual State CDBG funding and CDBG program income to support its Economic Development Revolving Loan Fund to provide assistance to businesses and to create jobs. In this particular instance, Nebraska awarded funds to Sarpy County which, in turn, provided a loan to Sergeant's Pet Care Products to purchase machinery and equipment as part of a \$7.5 million project. The project will help create 58 new full-time jobs, 40 of which will be targeted to low- and moderate-income persons, and will help retain 72 existing positions. According to State officials, the project is on track with all funds anticipated to be drawn and expended by the end of June 2013 and projected jobs to be created by the end of January 2014. The project meets all CDBG eligible requirements, national objective requirements and public benefit requirements.

OVERALL USE OF HUD FUNDS

Question. According to HUD's Office of the Inspector General (OIG), in fiscal year 2012, HUD could have put over \$3.2 billion to better use and paid over \$1.3 billion in questionable costs.⁴ This represents over \$4.5 billion in public funds that could have been better spent providing housing aid to people in need or not spent at all. Secretary Donovan, how do you explain this egregious use of funds that your own Inspector General identified?

Answer. The majority of funds that you are highlighting as funds that could be put to better use are constituted by four major items described below. The Department does not believe that the classification of funds that can be “better used” is

² http://www.governor.nebraska.gov/news/2012/03/19_sarpy_co.html.

³ http://www.morganlewis.com/pubs/Law360_PerrigoWin_13sept12.pdf.

⁴ <http://www.hudoig.gov/pdf/sar/sar-68.pdf> (page II).

useful or transparent in informing the public regarding the details of these significant financing issues. The Department would like to stress the many areas of agreement with the Office of the Inspector General (OIG) and the positive actions taken to meet specific circumstances including enactment of statutory authority by Congress for large portions of the total amounts—proposals that the Department actually initiated. In like manner, the Department emphasizes the need to examine the specifics of each case of financial action classified under the heading, “questionable costs.” For instance, the fact that a guaranteed loan program that was enacted by Congress for 1 year only did not have full subscription to the program does not seem to be well defined as funds that could be put to better use.

Four Items That Constitute the Vast Majority of Funds OIG Labeled as Having Potential “Better Use”

Item 1 involves the FHA Preforeclosure Sale Program, which accounted for approximately \$800 million of the \$3.2 billion identified by the OIG. The OIG conclusions derive from an examination of 61 claims involved in the \$25 billion national foreclosure settlement that was a great accomplishment involving the Department, the OIG and 49 State Attorneys General. This landmark settlement is resulting in recovery of funds for thousands of families impacted by improper foreclosure proceedings as well as having provided additional resources for the Federal Housing Administration (FHA) Single Family Mortgage Insurance program. In addition, in a larger context the Department is working diligently on both an operational, regulatory and statutory basis to further reduce risks involved in the FHA mortgage programs and thereby further strengthen the financial position of the FHA funds. While the FHA has agreed to implement the OIG’s recommendations, we do not agree with the characterization that the funds in question could have been put to better use.

Items 2 and 3 reflect an OIG review done covering fiscal year 2012 that recommended that \$1 billion in Public Housing Operating Subsidy be offset by limiting reserves held by public housing authorities to 6 months. The audit also recommended an additional \$890 million could be used as an offset from PHAs’ Housing Choice Voucher (HCV) program net restricted assets (NRA), “. . . if it is determined these funds are in excess.” The Department worked closely with the Congress on this issue and the enacted fiscal year 2012 Appropriations bill did provide for a \$750 million Operating Subsidy offset (initiated by the Department) and an additional \$650 million reduction in HCV NRA as proposed in the audit, but at levels that were considered by Congress and the Department to be more appropriate.

Item 4 reflects a recommendation by the OIG to return funds in the amount of \$471.8 million to the U.S. Treasury from the Emergency Homeowners’ Loan Program since all of the funds were not obligated. This loan program was authorized at \$1 billion for 1 year only and the Department did follow the direction discussed by the OIG to return several hundred million dollars to the U.S. Treasury recognizing that the subscription to the program was less than originally projected by the Congress when they enacted the legislation.

Two Items That Constitute the Vast Majority of OIG Identified “Questionable Costs”

Under the category of questionable costs the OIG report includes \$322.2 million under the FHA Preforeclosure Sale Program discussed above and an additional \$807.3 million, of which the majority share is associated with FHA-insured loans made by Countrywide Home Loans, Incorporated (later sold to Bank of America). As described on page 27 of the OIG semiannual report covering through September 30, 2012, Bank of America has paid FHA nearly \$471 million to settle the Countrywide portion of the consent judgment and has also agreed to a deferred settlement payment to FHA of \$850 million.

FHA’S PREFORECLOSURE SALES PROGRAM

Question. HUD’s OIG also reviewed the Federal Housing Administration’s (FHA’s) Preforeclosure Sales Program in fiscal year 2012. Of 80 claims statistically sampled, 61 did not meet the criteria for participation in the program. As a result, it is estimated that HUD paid \$1.6 billion in claims.⁵ How do you intend to strengthen program controls and obtain reimbursement from those lenders that were not previously pardoned from repayment in the national mortgage settlement?

Answer. The Department provided an auditee response to the Office of Inspector General (OIG) audit of the Federal Housing Administration’s (FHA’s) Preforeclosure Sale Program (PFS); Audit Report No. 2012–KC–0004. The auditee response dated September 17, 2012, stipulated that the Office of Single Family Housing agrees that

⁵ <http://www.hudoig.gov/pdf/sar/sar-68.pdf> (page III).

its PFS policies should align with market execution. To achieve this objective, FHA agreed: (1) to introduce a streamline PFS approval based on loan characteristics and borrower credit profile; and (2) specify income documentation requirements for the deficit income test that must be met for borrowers that do not meet the streamline requirements. OIG reviewed the corrective action stipulated above and a mortgagee letter that will achieve the two objectives referenced is scheduled to be issued in the 4th quarter of fiscal year 2013, pending OMB approval.

[A copy of HUD's complete auditee response follows:]

HUD MEMORANDUM—AUDITEE RESPONSE TO OIG'S AUDIT OF FHA'S
PREFORECLOSURE SALE PROGRAM

SEPTEMBER 17, 2012.

For: RONALD J. HOSKING,
Regional Inspector General for Audit, 7AGA

From: CHARLES S. COULTER,
Deputy Assistant Secretary, Single Family Housing, HUD

Subject: Auditee Response, FHA Preforeclosure Sale Program, Audit No.: 2012-KC-000X

The Office of Inspector General (OIG) reviewed the Federal Housing Administration's (FHA) Preforeclosure Sale Program. OIG performed this nationwide audit because of noted significant deficiencies in borrower qualifications during their audit of CitiMortgage's compliance with FHA's Preforeclosure Sale (PFS) claims (2011-KC-1005, September 30, 2011). OIG's audit objective was to determine whether the U.S. Department of Housing and Urban Development (HUD) paid claims for only those preforeclosure transactions that met the criteria for participation in the program.

The Office of Single Family Housing acknowledges that existing PFS policy and lender execution against that policy is inconsistent. To improve alignment and ensure that the long-term interest of the FHA Insurance Fund are met, FHA is working toward: (1) introducing a streamline PFS approval policy based on loan characteristics and borrower credit profile; and (2) specifying income documentation requirements for the deficit income test that must be met for borrowers that do not meet the streamline requirements.

The Office of Single Family Housing would also note that the 80 loans sampled by the OIG had an average credit score of 596 and an average delinquency of 8.7 months. Given this profile, it is likely that most of the 80 loans would have been conveyed to FHA as real estate owned (REO) if the PFS transactions had not been approved. Since the recovery rate of all PFS transactions is 53 percent and the recovery rate for single family REO sales is 36 percent, the claims paid by FHA on the PFS transactions were lower than they otherwise would have been and may have resulted in a net benefit to the FHA Insurance Fund of as much as \$170 million.

Regardless of the economic impact to the FHA Insurance Fund, the Office of Single Family Housing recognizes the need for strong, clear PFS policies and lender oversight. The Office of Single Family Housing will work closely with the OIG to ensure that these objectives are met and that the issues identified in the report are rectified.

SUBCOMMITTEE RECESS

Senator MURRAY. This hearing is recessed until next Thursday, April 18 at 10 a.m., at which time we will hold a hearing on the Federal Aviation Administration's budget request.

[Whereupon, at 11:06 a.m., Thursday, April 11, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 18.]

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2014**

THURSDAY, APRIL 18, 2013

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

The subcommittee met at 10:07 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.
Present: Senators Murray, Feinstein, Collins, and Moran.

DEPARTMENT OF TRANSPORTATION

STATEMENTS OF:

HON. MICHAEL P. HUERTA, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION

HON. CALVIN L. SCOVEL III, INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

Today, we are going to hear testimony from the Federal Aviation Administration (FAA) Administrator Huerta and the Department of Transportation (DOT) Inspector General Scovel on the President's fiscal year 2014 budget request for the Federal Aviation Administration. I want to welcome both of our witnesses. Thank you both for being here this morning.

This hearing marks the beginning of our process to build a budget for the FAA for fiscal year 2014. But as we take a close look at the agency's budget request for the coming year, we have to acknowledge where we stand today. For far too long, some Members of Congress have been unwilling to reach a fair and balanced compromise on deficit reduction, and as a result we are now facing drastic and arbitrary cuts to Federal spending that is required under sequestration.

The process of sequestration has slashed the FAA's budget by more than \$630 million, and it has hit just about every part of the agency, its operations and management of air traffic; its capital investments, including the Next Generation Air Transportation System (NextGen), the modernization of its air traffic control system; and its research activities. Some here in Washington, DC, claim the effect of such cuts will be minimal.

But Secretary LaHood has spoken out about the real impact these cuts will have on the FAA and our aviation system. He talked about how sequestration means the FAA will furlough its air traffic controllers, close down contract towers, and delay NextGen.

Secretary LaHood made it clear the FAA will not sacrifice the safety of our aviation system. Instead, the agency will reduce its services while ensuring air travel remains safe. However, reductions in air traffic control services will translate directly into an increase in travel delays.

We still need to see the details on how FAA plans to implement the cuts required by sequestration. This is important information for the subcommittee to consider as it develops a funding bill for next year.

Sequestration and a year-long continuing resolution enacted well into the fiscal year have made 2013 a challenging year for our agencies. But the fact remains that we have implemented large cuts to the funding for the Federal Government, and we still don't know exactly what Government services will look like after these cuts are implemented.

For fiscal year 2014, we must take seriously our responsibility to pass a budget that not only determines the total level of Government spending, but that reflects our priorities and puts into place the services we want to see fulfilled next year. We also need to make sure any potential cuts to the air traffic control system are fair and that FAA's process is transparent with adequate consideration given to the benefits and costs of specific tower closures.

Putting together this budget means we must take a hard look at the work the FAA has been doing. The FAA manages the most complex airspace in the world, and it is a world leader in protecting aviation safety.

Mr. Huerta, I look forward to hearing about your budget request and what you want to accomplish in the coming year. But we also have to recognize some problems at the FAA. The agency's history is filled with capital programs that run over budget, pass deadlines, and do not deliver on all of the promised capabilities. These problems continue to burden the FAA.

The agency recently awarded its System Engineering 2020 contract, which has a maximum value of \$7.3 billion. For a contract of this size, it is disturbing that a recent report issued from the Office of Inspector General (OIG) found that the FAA cannot track costs accurately.

NextGen requires the FAA to coordinate the development of several complex capital programs. However, another recent report from the OIG points out that problems with the En Route Automation Modernization (ERAM) program have directly contributed to 2 years of delay in the FAA's effort to transition from voice to data communication, which is an essential part of NextGen.

Problems continue to plague the FAA's operations as well. Just this past February, the OIG issued a report on the increase in operational errors by air traffic controllers. The FAA is unable to determine whether the increase in errors reflects better data collection or an increase in actual errors committed by controllers. In ad-

dition, the FAA does not have a base line that can be used to measure any improvement in operational errors.

The OIG has also reported recently on the FAA's inability to develop an effective model for its aviation inspector staffing. After spending 7 years developing it, the FAA still does not have a model it can use to justify its budget request or to place its aviation inspectors efficiently across our globe.

Mr. Scovel, your office has done excellent work on all these topics. I look forward to hearing your perspective on these issues as we discuss them this morning.

We do need to hold the FAA accountable for how it spends taxpayer dollars. As we move forward in this tight budget environment, the FAA cannot afford to continue any kind of mismanagement.

PREPARED STATEMENT

At the same time, we need to do our job here in Congress. We need the FAA doing its job on aviation, not trying to figure out how to move forward without a real budget in place. And that's why it's so important for this subcommittee and this Congress to return to regular order to pass a full appropriations act that reflects the priority of Congress and to pass it on time and through the regular process.

With that, I will turn it over to my ranking member, Senator Collins.

[The statement follows:]

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- its operations and management of air traffic;
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- its research activities.

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Secretary LaHood made it clear that the FAA will not sacrifice the safety of our aviation system. Instead, the agency will reduce its services while ensuring air travel remains safe. However, reductions in air traffic control services will translate directly into an increase in travel delays.

We still need to see the details on how the FAA plans to implement the cuts required by sequestration. We need to know:

- How the FAA will invest its funding for facilities and equipment;
- How many furlough days will be imposed on FAA employees; and

—After delays in the FAA's schedule for closing down contract towers, the status of each and every tower in the coming months.

This is important information for the subcommittee to consider as it develops a funding bill for next year.

Sequestration and a year-long continuing resolution enacted well into the fiscal year have made 2013 a challenging year for agencies. But the fact remains that we have implemented large cuts to the funding for the Federal Government, and we still don't know exactly what Government services will look like after those cuts are implemented.

For fiscal year 2014, we must take seriously our responsibility to pass a budget that not only determines the total level of Government spending, but that reflects our priorities, and puts into place the services that we want to see fulfilled next year.

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The FAA manages the most complex airspace in the world, and it is a world leader in protecting aviation safety. Mr. Huerta, I look forward to hearing about your budget request and what you want to accomplish in the coming year.

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We need to hold the FAA accountable for how it spends taxpayer dollars. As we move forward in this tight budget environment, the FAA cannot afford to continue this kind of mismanagement.

At the same time, we need to do our job here in Congress. We need the FAA doing its job on aviation, not trying to figure out how to move forward without a real budget in place.

And that is why it is so important for this committee and this Congress to return to regular order: To pass a full appropriations act that reflects the priorities of the Congress, and to pass it on time and through the regular process.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you very much, Madam Chairman.

Welcome, Administrator and also Inspector General Scovel.

Mr. Huerta, I understand that this is your first time testifying before our subcommittee, so I want to particularly welcome you.

There is another group here today that I would like to welcome. You may have noticed, Madam Chairman, as our subcommittee convened that there was a group of students in bright green tee shirts—

Senator MURRAY. Hard to miss.

Senator COLLINS [continuing]. Who came into the room. They are from the Presque Isle, Maine, Middle School, and they have just arrived on a school visit. We were going to meet up earlier, but getting into the building is slow, as you know. So I invited them to observe a bit of the hearing, and I will sneak out into the hall to take a quick picture with them. But I am delighted to welcome the Presque Isle Middle School students and teachers and chaperones here today to Washington, DC.

It's not the entire school, but I believe we have 58 students coming. So I knew that that would help increase the attendance for our hearing today.

Senator MURRAY. Welcome to all of you.

Senator COLLINS. Just over 1 year ago, we passed the FAA reauthorization bill. I look forward to hearing the testimony regarding the status of ongoing initiatives within the agency. The challenges that the FAA faces throughout the remainder of this fiscal year and into the next fiscal year are truly daunting, not only because we are operating under a continuing resolution, which was certainly not the choice of the chairman or myself, but also coping with the impact of sequestration.

It's important to remember that the \$637 million reduction from sequestration must be implemented in a way that ensures safety while minimizing the impact to the traveling public. Not only do I travel home to Maine every weekend—so this affects all Members of Congress personally—but I represent a State where tourism is very important, and being able to have an efficient air traffic control system is very important to the success of the tourism industry, which is a pillar of the economy of the State of Maine.

FAA recently announced its plans to achieve these savings, and I very much appreciated the call from the Administrator. But I am concerned that the result will be furloughs, the closure of contract towers, and the elimination of midnight services, among other controversial cuts.

In my home State of Maine, Bangor International Airport is one of the airports that is affected by the elimination of midnight tower closures. If the FAA moves forward with this plan, it will be very detrimental to airport operations. And let me explain why.

The Bangor Airport is a major port of entry and a diversion point for a wide mix of air traffic, including the return of our Nation's troops from overseas. Indeed, in the last decade, more than 1 million troops have landed at Bangor, Maine, and they've been met every single time by local troop greeters, even if they arrive in the middle of the night or the middle of a snow storm.

In addition, Bangor is a diversion point for planes with troubled passengers. Whenever there is an issue, whether it's a medical issue or an unruly passenger, or it is determined that an individual is on the no-fly list and should not be admitted into the country, the plane inevitably is diverted to Bangor.

The curtailment of air traffic control services will increase operational risk. Presence of a 24/7 FAA tower with full terminal radar services was a key determining factor in choosing Bangor as a Noble Eagle alert site post 9/11. The missions flown in and out of Bangor during these hours by the military are not always scheduled to air traffic, and the Bangor Air National Guard base, which

shares the commercial airport space, has the infrastructure and maintenance support to handle these short notice transients.

These diversions, as well as the civil diversions for homeland defense, are often circumstances where a pilot needs the support of a tower or radar control to help ensure safety. So I very much hope that these military and homeland defense factors are taken into consideration when the FAA finalizes its plans.

As the chairman mentioned, I know that the FAA is undertaking a long-term effort to improve the efficiency, safety, and capacity of the aviation system through NextGen. This is a critical system, but it has been plagued with some delays and cost overruns. It's a multibillion dollar effort that is absolutely essential to modernizing our airspace, and it will have the benefits of reducing delays and fuel consumptions to the nearly 2 million passengers traveling on over 50,000 flights controlled each day here in the United States alone.

This obviously has been a complex procurement, and we need to ensure that NextGen delivers the promised benefits while representing a sound investment of taxpayer dollars. I recognize that over the past several years, the aviation industry has faced some tough economic decisions. Aviation plays a critical role in economic growth, jobs, and investment, and the chairman and I share the goals of keeping our national aviation system the largest, safest, and most efficient in the world.

There are several other issues that I am going to discuss when we get to the questions. For example, I'm concerned about the number of runway incursions that have dramatically increased in recent years. And that has happened at a time when air traffic operations have been declining.

I am also concerned about the cutbacks in the Airports Improvement Program (AIP). I know the airports in my State rely heavily upon this program and are concerned with any reduction in AIP whether the reductions are made to small, medium, or large airports.

I'll also be asking about the latest developments with Boeing's 787 aircraft. I have a feeling that may be of interest to the chairman as well.

It is critical that we work together, and I look forward to doing just that. If the chairman will excuse me for just a few moments, I am going to go take a quick picture, and I will be right back.

Senator MURRAY. I noticed your class went out in the hall, so they're waiting for you.

PREPARED STATEMENT

Senator COLLINS. Thank you.
[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Thank you Chairman Murray. Welcome Administrator Huerta and Inspector General Scovel. Mr. Huerta, I understand this is your first time appearing before this subcommittee.

Just over 1 year since the final passage of the Federal Aviation Administration (FAA) authorization bill, I look forward to hearing the testimony regarding the status of the ongoing initiatives within the agency.

The challenges the FAA faces the remainder of this fiscal year and into fiscal year 2014 are daunting not only because of operating under a continuing resolution but compounded with sequestration. It is important that the \$637 million reduction from the sequester be implemented in a way that ensures safety while minimizing the impacts to the traveling public. FAA recently announced its plans to achieve this savings, which resulted in furloughs, the closure of contract towers, the elimination of midnight services, among other controversial cuts.

In my home State, Bangor International Airport is one of the airports affected by the elimination of midnight tower closures. If the FAA moves forward with this plan, it will be detrimental to airport operations. Bangor Airport is a major port-of-entry and diversion point for a wide mix of air traffic, including the return of our Nation's troops from overseas and the diversion point for planes with troubled passengers.

The curtailment of air traffic control services will increase operational risk. Presence of a 24/7 FAA tower with full terminal radar services was a key determining factor in choosing Bangor as a Noble Eagle alert site post 9/11. The missions flown in and out of Bangor during these hours by the military are not always scheduled air traffic, and Bangor Air National Guard Base has the infrastructure and maintenance support to handle these short notice transients. These diversions, as well as civil diversions for homeland defense, are often circumstances where a pilot needs the support of tower/radar control to help ensure safety. These military factors must be taken into consideration when the FAA finalizes its plans.

The FAA is undertaking a long-term effort to improve the efficiency, safety, and capacity of the aviation system through the Next Generation Air Transportation System (NextGen). FAA's recent estimate for NextGen's total cost through 2025 is expected to be between \$15–22 billion, with the private sector contributing an additional \$5–7 billion. This multi-billion dollar effort to modernize the national air space will provide many benefits, such as reducing delays and fuel consumption to the nearly 2 million passengers traveling on over 50,000 flights controlled each day here in the United States alone.

FAA has been working hard to address the many challenges identified with these highly complex initiatives, but much work remains to ensure programs are implemented on time and within budget. With this undertaking, processes must be improved and updated while eliminating duplication and waste in order to make the agency more efficient and effective. It is our obligation to ensure NextGen delivers the promised benefits and represents the sound investments of taxpayer dollars.

Over the past several years, the aviation industry, as with many other industries, has faced tough economic hardships. Aviation plays a critical role in driving economic growth, jobs, and investment across the country. Chairman Murray and I share the goals of keeping our national aviation system the largest, safest, and most efficient in the world.

While the FAA is continuing efforts to improve safety on the Nation's airport runways, the number of runway incursions has dramatically increased in recent years. This is particularly alarming given that air traffic operations have declined at the same time.

The fiscal year 2014 budget proposes \$15.5 billion for the FAA, which is a \$312 million increase over the current sequestered levels. This provides \$9.7 billion for the Operations account, \$2.8 billion for Facilities and Equipment, \$166 million for Research, Engineering and Development, and \$2.9 billion for the Airports Improvement Program (AIP). It is worth noting that the reduction to AIP is coupled with removing large airports from the program which will be offset with an increase to passenger facility charge fees. I am concerned with this proposal as this funding is essential to airports throughout the Nation. The airports in Maine rely heavily upon this program and are concerned with any reduction to AIP, whether the reductions are made to small, medium, or large airports.

I am also interested in the latest developments with Boeing's 787 aircraft. FAA has now approved Boeing's proposed certification plan that will, I hope, address factors that likely contributed to the battery incidents. I understand testing and design modifications have been completed and FAA is analyzing the results. I am eager to know when FAA anticipates its final approval allowing the 787s to continue its operations.

The future of aviation is in our hands. It is critical that FAA remain vigilant in its oversight responsibilities, and I look forward to working with you both on these efforts.

Senator MURRAY. Thank you very much. And I will turn to Mr. Huerta to begin his testimony.

Again, welcome to our subcommittee.

SUMMARY STATEMENT OF HON. MICHAEL P. HUERTA

Mr. HUERTA. Thank you very much, Chairman Murray, Ranking Member Collins, and members of the subcommittee. Thank you for the opportunity to be here today to discuss the FAA's 2014 budget request. As you are aware, this is my first appearance before you as Administrator of the FAA.

I appreciate the support of the Senate in moving my confirmation forward. We have a great number of challenges and a great number of opportunities ahead, and I sincerely hope to enjoy a long and effective relationship with this subcommittee.

The FAA's fiscal year 2014 budget request is \$15.6 billion. The budget upholds our critical safety programs while also deploying key NextGen benefits to our stakeholders and modernizing our aviation infrastructure. It does this at funding levels that are \$351 million below fiscal year 2012. This is a 2.2-percent decrease, which is part of the President's overall effort to reduce our Nation's deficit.

The FAA's proposed budget for 2014 assumes a long-term solution to our Nation's budget deficit and no sequester. The 2014 proposed budget would allow us to maintain staffing for air traffic control and for aviation safety. It would allow us to maintain capital investment in both airport infrastructure and FAA facilities and equipment and fund research and development.

The budget requests \$1 billion for NextGen, which is an increase of about 7 percent above 2012, in order to continue to support near-term progress. This request would help us continue to mitigate congestion in busy airspace above metropolitan areas, and it would help us with the continued deployment of radio transceivers that allow us to use very precise satellite-based information to control air traffic.

The FAA is requesting \$9.7 billion in our operations account. This represents an increase of just 0.6 percent above the fiscal year 2012 enacted level. This request will enable us to run the agency on a day-to-day basis and maintain and support our air traffic control and air navigation systems.

It ensures the safe operation of the airlines and the certification of new aviation products. It would also enhance the safety of the commercial space transportation industry and provide overall policy oversight and management of our airspace.

The operations budget includes an additional \$30 million to maintain and operate the new En Route Automation Modernization System, or ERAM, that became operational in the last 2 years. ERAM is at the heart of NextGen. It helps us to advance our transition from a ground-based system of air traffic control to a satellite-based system of air traffic management.

The 2014 budget allows the FAA to meet the challenge of both maintaining the capacity and the safety of the current system, while keeping our comprehensive modernization and transformation efforts moving forward. The majority of the \$2.8 billion requested for facilities and equipment is to sustain legacy areas. This includes aging infrastructure, power systems, information technology, navigational aids, and weather systems.

This year's request for research, engineering, and development (RE&D) is \$166 million, a decrease of 7 percent from 2012. Nonetheless, we intend to continue critical research in NextGen and other areas such as fire research and safety, propulsion and fuel systems, advanced materials research, alternative fuels, aging aircraft, and Unmanned Aircraft Systems.

Our budget emphasizes cost efficiency and reflects the hard choices we must make to provide the most benefit to the flying public. As a result, we're proposing to modify the mix of funding available for airport development projects.

The budget would allow commercial service airports to increase the passenger facility charge from the current maximum of \$4.50 to \$8.00. This gives airports greater flexibility to generate more of their own revenue, and it allows us to reduce our request for the ongoing Airport Grants Program by \$450 million. This change focuses Federal resources on smaller airports that don't have the passenger volume to generate their own revenue yet are still important to our Nation's air transportation network.

The President's 2014 budget request represents a balanced approach to achieving a long-term solution to our Nation's budgetary challenges. And this is critical when we consider the impact of the sequester on our aviation system in the current fiscal year.

As you noted, the cuts required by the sequester have forced us to slash contract expenses and furlough 47,000 of our employees. With employees working fewer hours, we will have a less efficient air traffic system and less time for safety inspectors to certify new aircraft for the market. It's my hope that we can work together to rally around our Nation's air transportation system and protect the great contribution that civil aviation makes to our national economy.

PREPARED STATEMENT

Madam Chairman, this concludes my prepared remarks, and I would be pleased to answer any questions you might have.

Senator MURRAY. Thank you very much.
[The statement follows:]

PREPARED STATEMENT OF HON. MICHAEL P. HUERTA

Chairman Murray, Ranking Member Collins, members of the subcommittee: Thank you for the opportunity to speak to you today. This is the first time I am testifying before you as the confirmed Administrator of the Federal Aviation Administration (FAA). I sincerely hope to enjoy a long and effective relationship with you and this subcommittee.

The FAA's fiscal year 2014 budget request of \$15.6 billion strikes a balance between maintaining current infrastructure while deploying key Next Generation Air Transportation System (NextGen) benefits to our stakeholders, upholding our critical safety programs, and modernizing our aviation infrastructure at funding levels that are \$351 million lower than fiscal year 2012. This is a 2.2-percent decrease, which is part of the President's effort to reduce the deficit.

The FAA's Operations request of \$9.7 billion represents an increase of just 0.6 percent above the fiscal year 2012 enacted budget. This funding level includes \$30 million to provide maintenance for newly transitioned En Route Automation Modernization (ERAM) systems, as well as modest inflationary adjustments for FAA's workforce, rent and lease increases, and costs for a Service Center building project.

This budget includes program adjustments of \$62 million from the fiscal year 2012 level in the Air Traffic Organization (ATO). To achieve these savings, ATO will be evaluating cost-savings and efficiency gains in the following areas: Contract

Weather Observations, Facility Realignment and Consolidations, and Very High Frequency Omnidirectional Range (VOR) Minimum Operational Network (MON).

The budget allows FAA to meet the challenge of both maintaining the capacity and safety of the current National Airspace System (NAS) while keeping our comprehensive modernization and transformation efforts moving forward. The Facilities and Equipment (F&E) request of \$2.8 billion represents a 1.7-percent increase from the fiscal year 2012 enacted level.

The F&E NextGen portfolio is \$928 million in fiscal year 2014, a 7.5-percent increase above the fiscal year 2012 enacted level. This funding provides FAA with the resources needed to continue our ongoing NextGen modernization activities, including nationwide Automatic Dependent Surveillance-Broadcast (ADS-B) deployment. It also provides for follow-on ERAM development for future NextGen capabilities and publication and accelerated development of Precision Based Navigation (PBN) procedures that will provide greater flexibility in the NAS and to facilitate more dynamic management of air traffic. The remainder of our investment—representing over \$1.8 billion—will be in legacy areas, including aging infrastructure, power systems, information technology, navigational aids, and weather systems.

The fiscal year 2014 Research, Engineering, and Development (RE&D) request of \$166 million is a \$1.5 million (1 percent) decrease from the fiscal year 2012 enacted level. This supports FAA's continued work in both NextGen and other research areas such as fire safety, propulsion systems, advanced materials, aircraft icing, and continued airworthiness. The RE&D NextGen portfolio is \$61.4 million, an increase of \$1.6 million above the fiscal year 2012 enacted level, and supports NextGen-specific research into wake turbulence, human factors, and clean aircraft technologies. This includes \$12 million for the Joint Planning and Development Office (JPDO) to continue their leadership in coordinating interagency initiatives.

The FAA must meet our Nation's growing need for UAS. Our RE&D request provides \$7.5 million to support this critical area through research on UAS technologies which directly impact the safety of the NAS. The program is focused on sense and avoid and command and control requirements that will support the safe integration of UAS in the NAS within the 14 Code of Federal Regulations regulatory framework.

The NextGen Alternative Fuels for General Aviation program is requested at \$5.6 million in order to support the recommendations of the Unleaded Avgas Transition Aviation Rulemaking Committee. Funding for the Environment and Energy program is requested at \$33.5 million. This program supports a range of activities, including research to mature certifiable clean and quiet aircraft technologies, and develop sustainable fuels. The program also supports enhanced NextGen environmental research via the Continuous Low Energy, Emission and Noise (CLEEN) program and other vehicles.

Airports remain a critical part of the aviation system infrastructure. Our fiscal year 2014 request provides the funding needed to ensure safety, capacity, and efficiency at our Nation's airports through a combination of grant funding and an increase in Passenger Facility Charges (PFCs). Our \$2.9 billion request supports our continued focus on safety-related development projects, including runway safety area improvements, runway incursion reduction, aviation safety management, and improving infrastructure conditions.

The fiscal year 2014 budget proposes to lower funding for Airport Grants to \$2.9 billion by eliminating entitlement funding for large hub airports while maintaining discretionary eligibility. To assist the airports that need the most help, the budget focuses traditional Federal grants to support smaller commercial and general aviation airports that do not have access to additional revenue or other sources of capital. At the same time, our proposal allows airports to increase non-Federal Passenger Facility Charges (PFC) from the current maximum of \$4.50 to \$8 which provides them with greater flexibility to generate their own revenue. If all commercial service airports increase the PFC collection to \$8 they could generate \$2.39 billion in additional funding for airport projects.

The fiscal year 2014 budget proposes that we work with the insurance companies and air carriers to build private capacity to insure against war risk occurrences. Our co-insurance proposal would build this private capacity through a transition period where risk is shared between the FAA and private insurers. In the first year of transition, the FAA would bear the majority of the risk, easing private insurers back into the market.

Private parties would play a large role in setting terms, conditions, and pricing of coverage under the proposed arrangement. Air carriers and insurers would have flexibility to develop terms and conditions that meet the carriers' needs while enabling the insurers to offer coverage at affordable prices. The FAA is ready to work

with insurers and carriers to find parameters that make for viable coverage under this proposal.

Under the co-insurance proposal, FAA and commercial insurance providers would jointly underwrite a common policy. In the case of a claim, FAA would pay an established fraction of the losses (for example 80 percent), and a commercial insurance company would pay the remainder. Air carriers would be free to negotiate the charge for the commercial fraction of the coverage with the insurance company. For FAA's share of the risk, FAA would charge the lesser of the current cap and a rate proportional to what the commercial insurance company is charging under the same policy.

This budget supports continued progress on our NextGen efforts. The entire fiscal year 2014 NextGen portfolio totals \$1.002 billion distributed among F&E programs (\$928.1 million), Research, Engineering and Development programs (\$61.4 million) and Operations activities (\$12.6 million). This investment portfolio reflects an increase of \$67.2 million, or approximately 7 percent, above the fiscal year 2012 enacted level. This level of program funding enables the FAA to continue to support near-term NextGen commitments in a budget-constrained environment.

While the thrust of our work focuses on U.S. airports, airspace and aircraft, the FAA actively engages with global aviation partners to ensure operators receive benefits anywhere in the world.

One immediate benefit to the public is the NextGen Metroplex initiative. The FAA is working to improve the efficiency of airspace above congested metropolitan areas by designing precise GPS routes that will accelerate benefits while reducing bottlenecks and congestion. These routes will enhance safety and efficiency, and foster the flow of commerce. Satellite-based navigation is expected to cut a total of 7 million nautical miles from flight plans around these cities each year. These routes, together with gradual descents that cut back on engine power, are projected to save at least 22 million gallons of fuel. For these cities, this represents total reduction in carbon emissions of 220,000 metric tons. That is the equivalent of removing more than 43,000 cars from the streets.

Fiscal year 2014 will see the continuation of NAS-Wide deployment of the Automatic Dependent Surveillance-Broadcast (ADS-B), the cornerstone of our transformation to satellite enabled, GPS-based navigation. We expect the total complement of about 700 radio stations to be in place and operating by early 2014. Fiscal year 2014 funding is also included for the development of ADS-B software requirements for the Advanced Technologies and Oceanic Procedures (ATOP) automation platform.

In December 2011, the FAA announced contract awards to analyze fuel quality control procedures, conduct jet engine durability tests with alternative fuels and perform key testing to support qualification and certification of jet biofuels from alcohols, organic matter, and other renewable materials. We expect these activities to support the next round of jet fuel approvals, scheduled to begin in 2014.

NextGen's contribution to our Nation's economic recovery and future leadership is critical. We recognize the fiscal challenges our Nation faces. America's future demands that we continue to invest in modern technologies that pave the way for tomorrow's capabilities. We continue to work in full partnership with industry, other agencies and departments, and with our labor groups to achieve a shared vision, leveraging powerful technologies and setting new standards for the future of global aviation.

Safety has always been FAA's number one mission, and our National Airspace System (NAS) has never been safer. There has not been a fatal commercial passenger accident in the United States since 2009. That represents approximately 39.7 million flights that were operated safely. I am proud of the hard work that has gone into providing a basis for achieving this level of safety. As we move forward into 2013 and beyond, U.S. aviation is experiencing its safest period ever, and the dedicated men and women of the FAA will continue working diligently to maintain safe operations within the NAS.

We are achieving this next level of safety by making our programs smarter and more data-driven. Our Nation's safety record is a direct result of an unwavering commitment by Government and industry to work together to monitor data and identify trends to prevent accidents. Instead of a reactive, forensic approach to safety management, we are identifying and mitigating conditions or trends that have potential to give rise to safety problems. The only way to prevent accidents before they happen is to accurately identify risk areas and work to mitigate them. This is possible due, in part, to voluntary reporting for both FAA and industry employees, safety management systems (for both FAA and industry) and the creation of the Aviation Safety Whistleblower Investigation Office. All of these efforts have been providing the agency with data and information to which we have never before

had access. More information results in FAA being able to see trends that could lead to accidents, and mitigate the associated risks to prevent accidents from happening. Adjusting the safety culture to ensure employees that they can provide information without fear of reprisal is a cornerstone of our approach to safety.

In 2012 we continued to expand the Aviation Safety Information Analysis and Sharing (ASIAS) system, which now covers 95 percent of all commercial flights in the United States. This system allows airlines to share operational data and voluntary safety reports with each other and the FAA. ASIAS and other data analysis tools are constantly making our aviation system even smarter. With these tools, we are able to conduct more comprehensive safety and performance analysis, and share this information with industry stakeholders.

With regard to the Boeing 787, last month Boeing redesigned the battery system and the FAA approved the company's plan for showing that the redesign will work. Approving the certification plan was the first step in the process to evaluate the 787's return to flight. Boeing has redesigned the internal battery components and added better insulation for the battery cells. They have also added a robust battery containment and venting system. The company has done extensive testing, including limited test flights, without passengers, using the redesigned battery prototype. The FAA is reviewing these test reports and analysis to make sure that the new battery system ensures the safety of the aircraft and its passengers.

We all know the importance of aviation to America and the global economy. Aviation creates jobs and trade, and it connects us to destinations near and far. The forecast we released March 6 shows that aviation will continue to expand both domestically and internationally over the coming decades. And traffic volume for U.S. carriers is expected to rise by more than 75 percent in the next two decades.

Last year, 737 million people flew on U.S. carriers, and we anticipate that number to hold steady this year. Our future outlook shows continued positive growth. In fact, we can expect roughly 400 million more people flying 20 years from now, an increase equal to more than today's U.S. population.

It is essential to the effective management of FAA's programs to have stability and predictability that can be relied upon. The many authorization extensions over the last few years took a toll on FAA's work in certain areas until the Federal Aviation Reauthorization Modernization and Reform Act of 2012 offered the stability essential to our agency's ability to meet the current demands of both air traffic and aviation safety. For many years, FAA labored under the uncertainty of temporary reauthorizations. Now sequestration places us in an even more extreme uncertainty. FAA has worked hard to plan for sequestration cuts. Seventy percent of FAA's Operations budget is dedicated to employee salaries and benefits, so they must bear a significant portion of the cuts. I can assure you that safety is the FAA's top priority. If sequestration means fewer flights can be safely accommodated in the NAS, then there will be fewer flights.

On March 5, FAA began issuing furlough notices to over 47,000 employees. There will be 1 furlough day per biweekly pay period, for a maximum of 11 days through September 30. We issued final furlough determination notices to employees in early April. We are also planning to eliminate midnight shifts in over 70 towers across the country, close over 149 air traffic control towers at airports with fewer than 150,000 flight operations or 10,000 commercial operations per year, and reduce preventative maintenance and equipment provisioning and support for all NAS equipment. All of these changes are being made in collaboration with our stakeholders and our unions.

As a result of employee furloughs and prolonged equipment outages resulting from lower parts inventories and fewer technicians, travelers should expect delays. Flights to major cities like New York, Chicago, and San Francisco could experience delays of up to 90 minutes during peak hours because we will have fewer controllers on staff. We are aware that these service reductions will adversely affect commercial, corporate, and general aviation operators. We also expect that, as airlines estimate the potential impacts of these furloughs, they will change their schedules and cancel flights.

Beyond the impacts to air traffic, aviation safety employees will also experience furloughs. This will impact airlines, aviation manufacturers, and individual pilots who need FAA safety approvals and certifications. While the agency will continue to address identified safety risks, a slowed certification and approval process due to furloughs could negatively affect passengers and all segments of the aviation industry.

We all want the same things. We want to get better at what we do, think smarter, improve safety, streamline certification, and remain the agency that can work collaboratively with the world to develop safer and more efficient practices. Sequestra-

tion will not stop us from trying to attain these goals, but it will make it much, much harder.

Despite these uncertain times, the demand for aviation and its services will continue to grow, and that is why it is critical that we invest smartly. Our world will continue to be even more interconnected, and aviation will continue to be a pillar of the global economy. NextGen will help us meet the challenges that lie ahead, as we transform from ground-based radar to satellite-based navigation, a work we are performing in collaboration with our industry partners. We are seeing its benefits already, and will continue to do so in the coming years as it becomes an even more integral component of our aviation system.

In 2012 we made several noteworthy strides delivering NextGen benefits to operators and the traveling public. Laying the groundwork is our En Route Automation Modernization (ERAM) program, the platform upon which NextGen capabilities will be realized. This enabler of NextGen has been deployed at over half of our facilities controlling high-altitude air traffic, and eight En Route centers are now using ERAM as their primary means of controlling aircraft. Five NextGen transformational programs are now under contract, most recently Data Communications and NAS Voice System. We also deployed the Automatic Terminal Proximity Alert tool in several locations, which has helped air traffic controllers better manage aircraft spacing to safely achieve optimal efficiency on final approach. And our System Wide Information Management tools are providing National Airspace System users with more precise weather information and airport surface data.

This past year, our deployment of satellite-based Performance Based Navigation (PBN) procedures increased both safety and capacity across the country as part of our Metroplex initiative. From northern California to southern Florida, we are implementing PBN to more efficiently use our Nation's airspace for direct routing. In addition, through data analysis, procedure improvements, and effective training for controllers as well as pilots, we safely modified the separation standards for approaches to parallel runways at a number of busy airports. Taken together, these initiatives are helping airlines improve on-time performance, reduce fuel consumption, and deliver travelers to their destinations more efficiently.

We continue to engage through our work with Optimization of Airspace and Procedures (OAPM) initiatives, which are being done in close collaboration with industry and stakeholders. OAPM is actively working in 9 of the 13 metroplexes identified in Phase 1 of the program. Of these, one (Houston) is currently in the implementation phase with two additional sites planned to start implementation of the new procedures later this summer (DC and North Texas). The metroplex initiative optimizes procedures in a geographic area where there are a number of airports, rather than focusing on each airport separately. Through this initiative, we are untangling our busiest airspace and creating more direct routes, cutting fuel usage, and becoming more environmentally friendly. In the congested airspace in the skies above our busiest metropolitan areas, these new modifications are being put in place in 3 years, much more quickly than the 5 to 10 years it had taken previously. We are also actively engaged with our industry and Government partners in the development of NextGen through, for example, the NextGen Advisory Committee (NAC). This group is helping to guide many aspects of our air traffic modernization work. The NAC also works on developing and recommending NextGen performance metrics.

Another key component of NextGen is reducing aviation's impact on the environment. Last year we advanced a number of critical initiatives toward this goal. We made great headway in developing a replacement for leaded aviation gasoline through our collaboration with industry and technical research. We partnered with industry through our Continuous Lower Energy, Emissions, and Noise (CLEEN) program to test aircraft with new wing and engine designs, as well as a blended sustainable biofuel. And we are collaborating with our Nation's airports to develop renewable energy sources and sustainability to reduce emissions. For example, this year we provided Airport Improvement Program (AIP) grants to Chattanooga Metropolitan Airport for construction of a 4,000 panel solar farm, and to Chicago O'Hare International Airport for low-emission electrical power units used by aircraft parked at the gate.

While NextGen is delivering benefits now, it also builds for the future. Similarly, the past year we made progress toward ensuring safety in industry segments where we anticipate significant growth in the coming years: Unmanned Aircraft Systems (UAS) and Commercial Space Transportation. FAA employees are working creatively with our industry partners to meet the challenges of these dynamic sectors.

We are working to safely integrate Unmanned Aircraft Systems into our national airspace. In March 2012, the agency created a new UAS integration office. The office serves as the FAA's one-stop portal for all matters related to civil and public use

of UAS in the NAS. The FAA is in the process of drafting the initial Notice of Proposed Rulemaking for small UAS. In addition, on February 14, 2013, the FAA released the Screening Information Request (SIR) to outline the process in which the FAA would collect, evaluate and select six test sites across the country to test Unmanned Aircraft Systems. We plan to select those UAS test sites by the end of this calendar year.

Just as with unmanned aircraft, the FAA is working to safely integrate commercial space operations into the national airspace system as well. To date, the FAA has licensed 215 commercial space launches and reentries. They have gone off without a fatality, a serious injury, or significant property damage. Last year, we licensed the historic launches of the SpaceX Falcon 9 rocket—marking the first time a commercial company delivered cargo to the International Space Station. Missions like these continue to demonstrate the viability of the commercial space industry. The FAA has also licensed a total of eight commercial spaceports. In fiscal year 2014, our commercial space division is requesting to convert four contract resources to Federal employees so they can expand their workload to include responsibilities that are inherently governmental. These additional duties would include safety inspections, compliance assessments, regulatory activity support, and inter-agency coordination efforts to create common safety standards.

Efficiencies are not just for the future. Given the economic challenges we are facing, FAA has worked very hard to find cost-savings and we have been quite successful. Even before sequestration, we have set a target of \$91 million in cost-savings for fiscal year 2013. We recognize that the status quo is not an option and we will continue to strive to achieve additional efficiencies moving forward.

Last year we made great strides in finding efficiencies, leveraging our resources, empowering our employees, and making greater use of technology to perform our core mission. Through a congressional reprogramming request under our Foundation for Success initiative, we streamlined finance, information technology, acquisition, and other essential functions within a shared services organization. The results included enhancing delivery of information technology services at a lower unit cost. Additionally, the FAA's Aeronautical Center, which supports the NAS as well as international partners, generated nearly \$16 million in cost-savings or avoidance last year through streamlining processes and continuous improvement initiatives. Overall in 2012, we generated nearly \$94 million in cost-savings or avoidance through control measures and innovative business solutions.

One of our most significant accomplishments of the year came in the wake of one of the Nation's biggest challenges. Hurricane Sandy devastated homes and infrastructure throughout the Northeast. Though the region's airports experienced flooding and other significant damage, our technical staff worked around the clock to restore airfield and air navigation systems to operational status. Their hard work and dedication to the FAA's mission resulted in the restoration of normal air traffic operations just days after the storm. Seeing our workforce's efforts to prepare for and rebuild after this unprecedented storm is one of my proudest moments as head of the FAA. The agency is grateful for the \$30 million in emergency relief funding entrusted to us by this committee. We are already putting these funds to good use to repair roofs and walls at FAA facilities, navigation and landing systems, power systems, and other structures and equipment. In total, the funds will support 59 repair projects at 21 different locations.

In the current fiscal climate, we must find ways for FAA's employees to work smarter and enhance our productivity. FAA must not only meet our day to day responsibilities, we must also look to the future and figure out how to shape the agency to meet the demands and opportunities of the future. We are actively engaging our employees in the development of recommendations for facilities consolidation and realignment. As noted earlier, the U.S. aviation system is going through significant, even revolutionary changes. NextGen is a major transformation which will increase our efficiency and safety, reduce delays and reduce fuel consumption. UAS have the potential to change the face of aviation. In the midst of these changes, budget pressures are making us ask hard questions about what the FAA needs to deliver in the coming years to ensure the safety and efficiency of the NAS and how to do it most cost-effectively.

Finally, it is essential that we chart innovative and collaborative ways to engage with all segments of the aviation sector, from airlines to association groups, to general aviation, to unions. We must embrace the opportunity to make long-lasting changes together that ensure a vital and vibrant aviation industry that serves the needs of this Nation.

I am extremely proud of our achievements. While I recognize there is still much work to be done, I know we are up to the task. In the years ahead we will strive to build on these achievements. We will work toward making the safest aviation sys-

tem even safer and smarter; accelerate the benefits of new technology; and empower employees to increase efficiencies and spur greater innovations. The decisions we make over the next few years are going to affect the air transportation system in the United States for decades to come, and I am eager to work with you and your colleagues to reach the next level of aviation safety and efficiency.

Senator MURRAY. Mr. Scovel.

SUMMARY STATEMENT OF HON. CALVIN L. SCOVEL III

Mr. SCOVEL. Madam Chairman, Ranking Member Collins, members of the subcommittee, thank you for inviting me to testify on FAA's fiscal year 2014 budget. Like other agencies across the Government, FAA is having to rethink its funding priorities and make difficult tradeoffs in a most trying fiscal environment.

My testimony today will focus on how FAA can achieve efficiencies through more effective management of its workforce, the agency's largest cost driver, and its modernization efforts while not losing sight of its safety mission. My office has identified multiple opportunities for FAA to reduce costs in managing its controller and inspector workforce.

The agency has been challenged to ensure thousands of newly hired controllers have the skills needed to carry out their critical role. Cost overruns on FAA's controller training contract have reached almost \$89 million. And training times for newly hired controllers have increased by 41 percent since 2009. To meet its goals of reducing training costs and times, FAA needs to provide stronger contract controls, including how it awards incentive fees.

FAA also needs to rethink its processes for scheduling controllers. While air traffic operations have declined by 23 percent since 2000, FAA today employs slightly more controllers than it did then. Improved scheduling, particularly on overnight shifts at low activity towers, could enhance productivity as well as yield additional cost-savings.

The agency similarly needs to improve how it allocates its 4,000 flight standards safety inspectors. FAA has yet to find a reliable model for determining how many inspectors it needs and where they are needed most to address the greatest safety risks and get the best return on investment.

FAA's second major challenge is effectively managing its implementation of modernization projects and protecting its airport investments. For example, FAA continues efforts to fully implement the En Route Automation Modernization program, a system for processing flight data initially priced at \$2.1 billion. While FAA has overcome some technical problems and fielded ERAM at 16 facilities, ERAM remains at risk of cost and schedule increases as FAA implements the system at the last four facilities, including some of the most complex in the National Airspace System.

To set realistic budgets and expectations for its modernization and infrastructure efforts, FAA needs to take several actions. First, FAA needs to complete an integrated master schedule for NextGen's many interdependent programs to address operational and technical risks and make informed cost and schedule tradeoffs.

Second, FAA must rein in excessive costs on major acquisition contracts. FAA awarded multibillion dollar contracts without resolving differences between the agency's cost estimates and those

provided in contractor proposals. This lack of control creates unreal, unreliable budget estimates and unnecessary cost increases.

Third, FAA needs to ensure airport revenues are appropriately spent. Over the past 10 years, we have identified millions of dollars in airport revenue that, contrary to Federal law, were diverted, used for non-airport purposes or simply lost. Had these revenues been used for airport operations, the airports could have relied less on Federal funding.

As FAA works to control costs, it must not lose sight of its number one priority, ensuring the continued safety of the National Airspace System. One of FAA's key safety issues remains reducing controller errors. FAA statistics show that serious operational errors by controllers are on the rise, including those associated with runway incursions. Improved data collection and analysis would enable FAA to better identify the root causes of these safety risks and mitigate them.

Another important safety issue relates to FAA's implementation of new pilot qualification requirements, a key provision of the Airline Safety Act. FAA is behind schedule in finalizing the highly contested rule for pilots, but still states it will make the final due date of this coming August.

Ongoing aviation advancements such as unmanned aircraft systems have created new safety challenges for FAA. Safely integrating these new systems, which FAA predicts may number roughly 10,000 within the next 5 years, will require new approaches to managing the Nation's airspace.

PREPARED STATEMENT

Madam Chairman, this concludes my prepared statement. I'd be happy to answer any questions you or other members of the subcommittee may have.

Senator MURRAY. Thank you very much.
[The statement follows:]

PREPARED STATEMENT OF HON. CALVIN L. SCOVEL III

Madam Chairman and members of the subcommittee: Thank you for inviting me to testify on the Federal Aviation Administration's (FAA) fiscal year 2014 budget. As you know, FAA strives to maintain safe operation of the National Airspace System (NAS) while ensuring efficiency through modernization efforts such as the Next Generation Air Transportation System (NextGen). The sequestration's mandated budget cuts require agencies across the Federal Government to rethink their priorities and make difficult tradeoffs. FAA is no exception. The audits conducted by my office aim to improve safety—FAA's number one priority—and to control costs, create efficiencies, and assist in establishing priorities.

My testimony today focuses on three significant challenges for FAA: (1) more effectively managing its workforce; (2) managing strategies for NextGen and modernization; and (3) continuing efforts to ensure the safety of the NAS.

IN SUMMARY

Our recent and ongoing work has identified opportunities for FAA to improve the management of its workforce, the agency's largest cost driver. Specifically, FAA can increase the efficiency of its air traffic controller and safety workforce by strengthening its controller training program, revising its controller staffing and scheduling practices, and developing an effective method for determining how many safety inspectors it needs and where they are most needed. At the same time, FAA must protect its investment in its multibillion dollar NextGen efforts and infrastructure improvements that are critical to ensuring the future viability of the NAS. This will

require FAA to set priorities and establish sound management strategies to achieve near- and long-term benefits, enhance its contract oversight, and prevent misuse of airport revenue and Federal grant funds. Finally, FAA must not lose sight of its number one priority: ensuring the continued safety of the NAS. One of FAA's key safety issues remains effectively collecting and analyzing data on air traffic controller errors that create air and ground collision risks. FAA also faces new challenges with safely integrating unmanned aircraft systems into the NAS, implementing a safety data sharing system to proactively assess risks, and ensuring effective oversight of its voluntary safety disclosure program for air carriers.

BACKGROUND

FAA's budget funds four accounts: Operations; Facilities and Equipment (F&E); the Airport Improvement Program (AIP); and Research, Engineering, and Development (RE&D).

- Operations is FAA's largest cost driver and funds most of the agency's day-to-day activities, including safety oversight and air traffic control functions. Salaries and benefits for controllers, safety inspectors, and other FAA personnel make up 71 percent of FAA's operations costs.
- F&E funds the agency's NextGen initiatives and other modernization activities such as improving aging infrastructure, power systems, navigational aids, and weather systems.
- AIP funds grants to airports to pay for runway construction and other related projects.
- RE&D provides funds for NextGen and other research areas such as fire research and safety, and aging aircraft.

FAA's total fiscal year 2014 budget request of \$15.6 billion represents about a 2-percent decrease from the agency's 2012 budget. However, the 2014 request includes \$3 billion in Immediate Transportation Investments spending for AIP and NextGen programs (see table 1). FAA proposes to shift the focus of its AIP account to smaller commercial and general aviation airports and eliminate guaranteed AIP funding for large hub airports. The proposal would also increase the passenger facility charge limit from \$4.50 to \$8 per enplanement for all eligible airports, giving large hub airports greater flexibility to generate their own revenue.

TABLE 1.—FAA BUDGET, FISCAL YEAR 2012 THROUGH FISCAL YEAR 2014

[Dollars in millions]

Account	2012 actual	2013 continuing resolution annualized ¹	2014 request	Increase/decrease from 2012 to 2014 (Percent)
Operations	\$9,653	\$9,712	\$9,707	0.6
F&E	2,731	2,777	2,778	1.7
AIP	3,350	3,350	2,900	– 13.4
RE&D	168	169	166	– 1.2
Subtotal	15,902	16,008	15,551	– 2.2
Immediate Transportation Investments .....	.....	.....	3,000	.....
Total	15,902	16,008	18,551	16.7

¹ This amount excludes the \$637 million reduction in funding due to the sequestration.

Source: FAA.

Due to sequestration, FAA must reduce its remaining fiscal year 2013 budget by \$637 million. The majority of this reduction will be absorbed by the Operations account. FAA expects that cuts to the Operations account will result in the closure of 149 contract towers, and FAA plans to require controllers, technicians, and other employees to take up to 11 unpaid furlough days through the end of September. Most of the remaining reduction will be absorbed by the F&E account. This reduction will require FAA to adjust its cost and schedule baselines for individual NextGen and other modernization programs, which could delay completion of these projects.

FAA HAS OPPORTUNITIES TO MORE EFFECTIVELY MANAGE ITS CONTROLLER AND
INSPECTOR WORKFORCE

FAA plans to place thousands of new air traffic controllers at its more than 300 air traffic facilities nationwide—a significant challenge, as new controllers can require several years of training to become certified at their assigned locations,¹ and each facility has unique operations and air traffic volume. Although the agency has had a major controller training support contract in place since 2008, the contract has experienced cost overruns and has not met its goal to reduce total training times. FAA must also continue in its efforts to address controller workload issues, particularly in terms of improving productivity, which could create cost-savings. Finally, to effectively oversee a dynamic aviation industry, it is critical that FAA place its approximately 4,000 flight standards safety inspectors where they are most needed.

Challenges in FAA's Training Programs and Contract Oversight Jeopardize FAA's Efforts To Ensure a Proficient Controller Workforce

To replace retiring controllers who were hired immediately after the 1981 strike,² FAA plans to hire and train more than 11,700 new controllers over the next 10 years.³ In 2004, we reported that FAA's controller training program was extremely decentralized for such a large national undertaking and that the efficiency and quality of training varied extensively by location. With the large numbers of new controllers entering the workforce and veteran controllers retiring or eligible to retire, FAA must have reliable information on how many certified controllers it needs to effectively manage the NAS. FAA executed a contract to train its new controllers; however, it has not been effectively managed.

FAA's \$859 million Air Traffic Controller Optimum Training Solutions (ATCOTS) contract continues to be a significant issue for the agency. FAA awarded the contract in 2008 to provide up to 10 years of controller training support and to assist in modernizing the agency's training program.⁴ Key ATCOTS goals include reducing total training costs, reducing training time, and developing training innovations that can be adapted to new technologies—particularly those related to NextGen. However, 4 years into the contract, the goals have not been achieved. For example, between 2009 and 2012, the average training time for newly hired controllers increased 41 percent from 1.9 years to 2.7 years.

In 2010, we reported that the ATCOTS contract faced significant cost overruns, poor procurement practices, and a lack of effective contract oversight.⁵ For example, in its first 2 years, the ATCOTS contract exceeded negotiated contract values by \$46 million. Our current review continues to show that FAA has not implemented sufficient changes to improve its program and contract oversight. For example, in 2012, after 4 consecutive years of cost overruns (totaling approximately \$89 million), FAA chose to extend the ATCOTS contract by 3 years without clearly defining the contract's training requirements or ensuring that it can produce sufficient training innovations to meet its training goals.

Additionally, since awarding the 10 year contract in September 2008, FAA paid the contractor over \$31 million in cost incentive fees and award fees that were ineffective at motivating contractor performance. For example, to reduce contract costs, FAA paid the contractor \$19 million in cost incentive fees and award fees related to cost containment despite the \$89 million in cost overruns. FAA also awarded the contractor over \$12 million for meeting performance measures that do not link to important training goals, such as training innovations.

In May 2011, FAA created an Independent Review Panel of industry and academic professionals to evaluate all aspects of how the agency hires, assigns, and trains new controllers. To date, the panel has identified 49 recommendations, many incorporating actions we previously recommended, that could significantly improve FAA's controller hiring and training processes. However, most are in the early

¹New controllers achieve certification on each position as they move through facility training. After they have certified on all positions within their assigned area, they are commissioned as a certified professional controller at that facility.

²In 1981, following a period of labor unrest, an overwhelming majority of the air traffic control workforce went on strike on August 3. President Reagan ordered those controllers to return to duty within 48 hours. When those 10,438 striking controllers did not return to work, President Reagan fired them on August 5.

³Over the past 5 years, FAA has hired more than 6,600 new controllers.

⁴The ATCOTS contract consists of a 5-year base period, worth \$437 million, and two option periods (a 3-year period and a 2-year period) worth \$422 million.

⁵FAA's *Air Traffic Controller Optimum Training Solution Program: Sound Contract Management Practices Are Needed To Achieve Program Outcomes* (OIG Report No. AV-2010-126), September 30, 2010. OIG reports are available on our Web site at <http://www.oig.dot.gov/>.

stages of development, and timeframes for actual implementation are not yet known.

We plan to issue reports on FAA's ATCOTS contract and air traffic controller facility training later this year and will continue to monitor the agency's cost-saving efforts in these areas.

FAA Could Realize Cost-Savings Through Improved Controller Productivity and Scheduling

Since 1998, FAA has introduced a series of initiatives intended to increase controller productivity and reduce operating costs. These initiatives include eliminating alternate work schedules, matching controller staffing to facility workload, reducing operational overtime costs, and developing an automated official time reporting system. However, it is unclear whether these initiatives are achieving the anticipated productivity gains and cost-savings. FAA data suggest that its overall staffing may not be optimal. Since 2000, total air traffic operations have declined by 23 percent, while the total number of controllers slightly increased. We are currently conducting a review of FAA's controller productivity initiatives.

As directed by the FAA Modernization and Reform Act of 2012,⁶ we are also conducting a review of the cost impacts of new FAA controller schedules—developed in response to concerns about the impact of FAA scheduling practices, particularly during overnight shifts, on controller performance and air traffic safety. While most of FAA's new controller scheduling policies have not significantly affected costs, our ongoing work indicates the agency could realize some cost-savings through better scheduling. For example, 72 facilities that do not meet the agency's minimum traffic guidelines for continuous overnight operations continue to have a minimum of two controllers during the midnight shift. Reducing air traffic control services at these facilities during a portion of or the entire midnight shift could reduce operating costs. However, FAA has not yet calculated the potential savings. We expect to report on our reviews of FAA's controller productivity and scheduling later this year.

FAA Has Not Developed a Reliable Method for Determining Its Safety Inspector Workforce Needs

FAA currently employs approximately 4,000 flight standards safety inspectors who oversee all facets of aviation safety, from general aviation to air carrier operations. However, the agency has not determined where these resources are most needed or the extent to which there may be a shortfall in its inspector workforce. A 2006 National Research Council (NRC) study,⁷ conducted at the direction of Congress, found that FAA's methodology for allocating aviation safety inspector resources was ineffective. NRC recommended that FAA develop a new approach, and, in response, FAA introduced a new staffing model in October 2009.

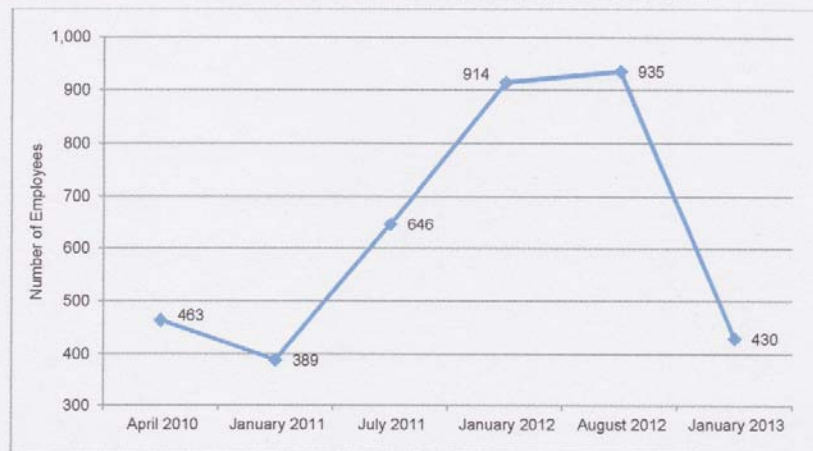
We have evaluated the model as part of an ongoing audit of inspector staffing, as requested by Congress.⁸ Thus far, FAA officials are not confident in the accuracy of the model's staffing projections and therefore have not fully relied on the number projected by the model when developing plans and annual budget requests. As of January 2013, FAA had reported the results of its staffing model six times, with each iteration showing very different nationwide employee shortages (see figure 1).⁹

⁶Public Law 112-95.

⁷"Staffing Standards for Aviation Safety Inspectors," September 20, 2006.

⁸Congress directed our office to review inspector and analyst staffing issues in section 205 of the Airline Safety and FAA Extension Act of 2010, Public Law 111-216, enacted August 1, 2010.

⁹Based on our analysis of FAA data, these fluctuations appear to be caused by a number of underlying issues such as inaccurate and outdated data.

Figure 1. FAA's Model-Projected Safety Employee Shortfalls

Source: OIG analysis of FAA data.

FAA is working to further refine the model so that it more effectively identifies the number of inspectors needed and where they should be placed to address the greatest safety risks and get the best return on investment. We expect to issue our report on inspector staffing later this year.

SOUND MANAGEMENT STRATEGIES ARE KEY TO THE COST-EFFECTIVE IMPLEMENTATION
OF FAA'S MODERNIZATION AND INFRASTRUCTURE EFFORTS

FAA has numerous efforts underway to modernize the air transportation system and upgrade infrastructure—most notably its multibillion dollar NextGen transformational programs.¹⁰ The success of these efforts depends on the agency's ability to set priorities, control costs, deliver benefits, and maintain stakeholder support. However, FAA has been challenged to maximize near-term benefits through its metroplex initiative, while addressing cost and schedule risks related to implementing critical automation systems such as the En Route Automation Modernization (ERAM) program. In addition, FAA has not yet developed an integrated master schedule to help advance and prioritize key transformational programs. Other challenges include improving contract oversight and management, upgrading aging air traffic control facilities, and protecting airport investments.

Integrating New Performance-Based Navigation Routes Is Critical To Maximizing Near-Term Benefits and Ensuring User Support

In 2010, FAA launched its metroplex initiative—a 7-year effort to improve the flow of traffic and efficiency at congested airports in 13 major metropolitan areas. A key part of this effort and a stepping stone for NextGen is the introduction of new performance-based navigation (PBN) procedures, such as Area Navigation (RNAV) and Required Navigation Performance (RNP),¹¹ which can provide significant near-term benefits such as more direct flight paths, improved on-time aircraft arrival rates, greater fuel savings, and reduced aircraft noise. FAA has completed initial studies or begun design work at 8 of the 13 metroplex locations but continues to face challenges with shifting from planning to implementation. FAA has extended the expected completion date for all metroplex sites by 15 months to September 2017 after determining that its initial schedule was too aggressive.

While the metroplex approach is a step in the right direction to achieving the near-term benefits of reduced congestion, we reported in August 2012 that industry

¹⁰ FAA's transformational programs, defined as programs directly related to the delivery of NextGen capabilities, will fundamentally change the NAS by enhancing communications, improving the tracking of aircraft, and revamping overall air traffic management.

¹¹ RNAV is a method of navigation in which aircraft use avionics, such as Global Positioning Systems, to fly any desired flight path without the limitations imposed by ground-based navigation systems. RNP is a form of RNAV that adds on-board monitoring and alerting capabilities for pilots, thereby allowing aircraft to fly more precise flight paths.

representatives were concerned that FAA had not yet integrated efforts from other related initiatives, such as better managing surface operations.¹² In addition, many airspace users that are equipped with advanced avionics would like more advanced PBN procedures than FAA's current efforts provide—specifically, those that regularly allow for more precise and curved approaches. We also identified a number of barriers to FAA's metroplex effort, including the need to work across diverse agency lines of business, update policies, streamline the process for implementing new flight procedures, apply environmental regulations, upgrade controller automation tools, and train controllers on new advanced procedures. FAA is currently working to address our recommendations, including developing milestones for a more integrated metroplex approach and addressing barriers in a timely manner.

FAA has several efforts underway to identify and resolve obstacles to PBN use. For example, FAA has tasked MITRE to obtain and analyze data to measure the use of PBN procedures and quantify their benefits. While our analysis of MITRE's preliminary data shows high RNP use at some small- to medium-sized airports, such as Oakland, overall RNP usage is low, particularly at busy metroplex airports, such as New York.¹³ According to MITRE, one of the obstacles to using the procedures in busy metroplex locations is the lack of controller tools to manage mixed operations—that is merging aircraft using straight-in approaches with those on curved paths.¹⁴ It is important for FAA to use MITRE's data to determine why procedures are not being used and what it will take to obtain benefits. FAA currently has a team developing an action plan to address obstacles, such as the need to update policies and procedures to allow PBN use, and expects to issue a report later this year. FAA is also working to streamline its process for implementing new procedures in response to recommendations from an internal FAA review—the NAV Lean project. However, FAA has only implemented 3 of the 21 recommendations thus far and does not expect to complete all recommendations until September 2015.

Despite Progress, FAA Faces Programmatic and Cost Risks With Automation Systems in the Critical Path of NextGen

FAA's goals for NextGen ultimately depend on the success of its ongoing efforts to deploy ERAM—a \$2.1 billion system for processing flight data. Without ERAM, the key benefits of FAA's transformational programs, such as new satellite-based surveillance systems and data communications for controllers and pilots, will not be possible. FAA originally planned to complete ERAM by the end of 2010, but significant software problems impacted the system's ability to safely manage and separate aircraft and raised questions as to what capabilities ERAM will ultimately deliver. As a result, FAA rebaselined the program in June 2011, pushing its expected completion to 2014 and increasing cost estimates by \$330 million.

FAA is making considerable progress toward getting ERAM on track. The agency is now using ERAM at 16 of 20 sites either on a full- or part-time basis—a significant step forward given the extensive problems at the two initial sites. FAA plans for all 20 sites to achieve full operational capability and to decommission¹⁵ the legacy system by August 2014. However, as FAA deploys ERAM to the Nation's busiest facilities, such as New York and Washington, DC, it expects to identify new problems that could impact cost and schedule. FAA is currently spending about \$12 million a month on the ERAM F&E portion of the contract, excluding NextGen efforts funded through the ERAM contract. If the current contract burn rate does not decline significantly, the agency will need additional funds to complete this stage of the program.¹⁶

Moreover, controllers and experts continue to raise concerns about ERAM's capabilities. While these issues are not expected to delay ERAM's 2014 implementation, they will need to be addressed for the system to support NextGen initiatives.

¹²*Challenges With Implementing Near-Term NextGen Capabilities at Congested Airports Could Delay Benefits* (OIG Report No. AV-2012-167), August 1, 2012.

¹³PBN usage data is as of January 2013. MITRE has ongoing efforts to update the data and improve the formulas. MITRE is only capturing data for RNP procedures with curved approaches because it cannot distinguish RNP procedures with straight-in approaches from conventional procedures.

¹⁴According to MITRE, other causal factors, such as weather or operational conditions that do not necessitate the use of PBN instrument approaches, can also affect RNP use.

¹⁵Decommissioning involves the disconnection, removal, and disposal of the HOST computer system once ERAM has been declared operationally ready at a site.

¹⁶The Office of Management and Budget (OMB) approved shifting \$44 million of ERAM O&M funding to F&E funding, increasing total ERAM F&E funding to \$374 million. As of February 2013, FAA had spent a total of \$241.86 million (F&E)—about 64.7 percent of the \$374 million in F&E funding allocated since the June 2011 rebaseline.

—*Flight Plan Trajectory Modeler.*—This is an ERAM capability that models aircraft flight paths and is used to predict conflicts and ensure accurate handoffs between controllers and other facilities. However, the modeler software has often required adjustments to change the flight plan trajectory to ensure accurate handoffs. According to controllers, improvements are needed in order to support current operations and NextGen capabilities that use trajectory-based operations.¹⁷

—*Aircraft Tracking and Sensor Fusion.*—This capability allows ERAM to integrate—or “fuse”—multiple radars and satellite-based information for controllers. However, thus far, controllers have not been able to take advantage of this improved capability because of tracking issues. A MITRE analysis found that the ERAM tracker will require adjustments to use the Automatic Dependent Surveillance-Broadcast system (ADS-B)¹⁸ and radar together to manage air traffic. Until these issues are addressed, it is unlikely FAA will be able to reduce separation between aircraft at high altitudes.

Similar to ERAM, FAA’s Terminal Automation Modernization/Replacement (TAMR) effort is on the critical path to NextGen. FAA’s TAMR program aims to modernize or replace all of the automation systems that controllers rely on to manage traffic at terminal facilities with a single automation platform—the Standard Terminal Automation Replacement System (STARS) system. If effectively implemented, TAMR is expected to reduce agency costs and facilitate the implementation of NextGen capabilities.

TAMR currently involves modernizing automation systems at 11 terminal facilities, 7 of which are the largest and busiest in the Nation. FAA estimates this effort will cost \$438 million and be completed between 2015 and 2017. However, the agency faces significant cost, schedule, and technical risks in this effort. Specifically, FAA has yet to identify and finalize all “gaps”—that is, the software and hardware requirements that are needed to successfully replace the existing automation system¹⁹ with STARS. Finalizing these gaps requires extensive software development and testing—a lengthy and potentially costly process should issues arise in testing. FAA is currently developing software to address 94 gaps but anticipates identifying more gaps once it begins transitioning to STARS at the busiest facilities. Moreover, because full STARS capability at the 11 sites is still years away, FAA continues to add new capabilities to existing systems at select facilities to support air traffic operations. The longer FAA must maintain and update existing systems at these sites, the greater the implementation and cost risk because FAA will have to add the same new capabilities to STARS to maintain operations at the sites. To improve FAA’s effectiveness in achieving terminal modernization, we made a number of recommendations to better and more cost efficiently manage this effort. We anticipate receiving FAA’s response and issuing our final report soon.

FAA Lacks an Integrated Master Schedule To Manage and Prioritize Key NextGen Programs

Setting realistic plans, budgets, and expectations for key NextGen programs is critical to controlling NextGen costs. FAA now spends almost \$1 billion annually on NextGen efforts and plans to spend \$2.4 billion between 2013 and 2017 on the six transformational programs that will provide NextGen’s foundational technologies and infrastructure.²⁰ These include ADS-B, with a current approved cost of \$2.7 billion, and Data Communications, with a current approved cost of \$741.5 million.

However, FAA has yet to complete an integrated master schedule to manage implementation of these six programs—many of which are interdependent. Without a master schedule, FAA will be challenged to: (1) fully address operational, technical, and programmatic risks; (2) prioritize and make informed tradeoffs for programs’ costs and schedules; and (3) determine what capabilities should be delivered first. In response to a recommendation we made in April 2012,²¹ FAA is working on the integrated master schedule and expects to have it completed by December 2013.

¹⁷Trajectory-based operations focus on more precisely managing aircraft from departure to arrival with the benefits of reduced fuel consumption, lower operating costs, and reduced emissions.

¹⁸ADS-B, one of NextGen’s transformation programs, is a satellite-based surveillance technology that combines the use of aircraft avionics and ground-based systems.

¹⁹Common Automated Radar Terminal System (CARTS-III) automation systems currently exist at the 11 large terminal facilities.

²⁰These six programs are ADS-B, System Wide Information Management, Data Communications, NextGen Network Enabled Weather, NAS Voice System, and Collaborative Air Traffic Management Technologies.

²¹*Status of Transformational Programs and Risks to Achieving NextGen Goals* (OIG Report No. AV-2012-094), April 23, 2012.

Ineffective Planning and Oversight Have Contributed to Cost Overruns and Delays for Efforts Needed To Support NextGen

Since 2005, FAA has experienced cost overruns, schedule delays, or both on half of its major air traffic control programs, including ERAM. Weaknesses in FAA's contract planning have hindered the agency's ability to efficiently and effectively advance programs and protect its investments. For example, when designing ERAM's contract structure, FAA did not fully adopt best practices for information technology (IT) acquisitions—such as modular contracting, which calls for dividing a large contract into manageable contract segments delivered in shorter increments. In addition, ERAM's cost incentive fee did not motivate the contractor to stay below cost targets because FAA simply increased the target costs as requirements grew. At the time of our review, FAA paid the contractor over \$150 million in cost incentives fees even though ERAM costs exceeded the budget by at least \$330 million. Further, FAA did not detect or mitigate significant risks until almost 2 years after software problems surfaced at a key test site. In response to our recommendations, FAA has modified the ERAM contract to implement a more modular structure, revised incentives for new software releases, and improved ERAM's risk management process.²²

FAA has also awarded contracts without resolving differences between the agency's cost estimates and those provided in contractor proposals, resulting in unreliable budget estimates. For example, to accomplish NextGen and efforts related to maintaining the NAS, FAA awarded seven Systems Engineering 2020 (SE-2020) contracts for technical and professional support services, which have a cumulative maximum value of \$7.3 billion—the largest award in FAA history. However, when FAA awarded these SE-2020 contracts in 2010, it included 18 million more labor hours than needed, overstating potential contract costs by \$2 billion. As a result, FAA cannot be sure that the contract's cost baseline is an accurate benchmark for monitoring costs. For FAA's ATCOTS contract, FAA did not resolve the 29 percent difference between the contractor's proposed costs and FAA's independent Government cost estimate. In addition, the contract experienced a 35-percent cost increase during the first contract year due to underestimating controller training requirements.

FAA's problems in these areas are further exacerbated by weaknesses in its review and approval process for major acquisitions. OMB requires Federal agencies to monitor and evaluate performance of IT investments through a capital planning and investment control process. In response, FAA's Joint Resources Council (JRC) was established to ensure capital investments fulfill mission priorities and maximize resources. However, JRC sometimes lacks complete information when making investment decisions. Further, FAA does not consistently follow the JRC approval and oversight process. As a result, FAA risks making investment decisions with incomplete information, which could jeopardize the success of critical FAA programs. For example, since 2005, FAA has experienced cost overruns, schedule delays, or both on 7 of its 14 major air traffic control IT programs, including the Wide Area Augmentation System program, which exceeded original cost estimates by \$2 billion. FAA has established a new control group within its Program Management Office that, once appropriately staffed, will begin to assess program planning documentation.

FAA Must Address Key Issues To Achieve Potential Cost Savings Through Facility Realignments and Consolidations

A critical—and costly—step in FAA's NextGen effort is the extent to which it realigns and consolidates its aging infrastructure. To sustain its current facility infrastructure, in fiscal year 2014, FAA plans to spend \$125 million to replace or improve its terminal radar approach control (TRACON) facilities and air traffic control towers, \$53 million to maintain en route centers, and \$85 million to sustain electrical power systems. The average age of an en route center is 51 years, while the average age of a TRACON is 29 years. Moreover, many of these facilities are in poor or fair condition, and the infrastructure at some facilities cannot support NextGen and other modernization initiatives.

FAA's current plans call for an integrated control facility in the New York metropolitan area—a significant step in achieving operational efficiencies. However, to successfully realign and consolidate facilities, FAA needs to make informed decisions regarding cost, schedule, technical capabilities, and the impact on the aviation workforce. In July 2012, we recommended that FAA develop and regularly update comprehensive cost estimates for construction, equipment, increased salaries, relocation

²² *Weaknesses in Program and Contract Management Contribute to ERAM Delays and Put Other NextGen Initiatives at Risk* (OIG Report No. AV-2012-179), September 13, 2012.

expenses, and training for its consolidation effort.²³ As FAA's plans evolve, addressing these issues early will better position the agency to achieve potential cost savings and NextGen benefits. FAA expects to provide a detailed cost estimate for the integrated New York facility by the end of 2014. To completely implement our recommendation, FAA will need to produce detailed financial information for consolidating facilities in other locations.

Further Actions Are Needed To Protect Federal Investment in Airport Infrastructure

FAA projects that U.S. passenger traffic will grow by 2.6 percent annually in the next 5 years, and that by 2033 there will be 1.15 billion passengers. Ensuring enough capacity at the Nation's airports is essential to meeting this demand, reducing delays, and realizing the full benefits of NextGen. However, NextGen alone will not address capacity constraints at some airports. While FAA has made progress in overseeing airport infrastructure improvements at our Nation's airports,²⁴ including new runways, the agency must ensure that current and planned runway projects and their corresponding capacity-enhancing airspace changes remain on schedule. Moreover, FAA needs to improve its grant oversight to protect its significant investments in these projects.

FAA is pursuing several airspace redesign projects nationwide—including major efforts to revamp airspace in the Atlanta, Chicago, and New York-New Jersey-Philadelphia areas. To ensure runways at these sites have sufficient capacity to accommodate the additional air traffic, FAA must synchronize its airspace redesign and runway efforts, as it did at the Chicago O'Hare International Airport. Completing a new runway and extending an existing runway in 2008²⁵ allowed FAA's airspace redesign efforts in that area to move forward.

However, the remaining infrastructure and related airspace projects for O'Hare, as well as the planned infrastructure and related airspace projects for the Philadelphia International Airport, are at risk due to the uncertain future of these capacity enhancement programs (see table 2). Although FAA has committed nearly \$1.4 billion in AIP funds for the next 20 years—with annual outlays of more than \$60 million—the agency faces multiple implementation challenges. To protect these investments and ensure sufficient capacity, FAA needs to work closely with airports, airlines, and other stakeholders to resolve differences and make decisions about these projects so they can move forward.

TABLE 2.—STATUS OF MAJOR NEW RUNWAY PROJECTS

[Dollars in millions]

Airport	Phase	Estimated completion date	Total cost estimate
Chicago O'Hare:			
Runway 10C/28C	Construction	September 2013 ..	\$1,290
Runway 9R/27L ¹	Design ²	2020	520
Runway 9C/27C	Design ²	2020	1,130
Runway 10R/28L	Construction	December 2015	516
Philadelphia: Runway 9R/27L, Runway 8/26 ¹ , Runway 9R/27L ¹	Some Site Prep ^{2 3} ...	TBD	5,200

¹ Extension of existing runway.

² Funding for construction has not been secured and is subject to ongoing negotiations with the airlines.

³ Extension of runway 9R/27L (which will be renamed 9C/27C when the new runway is built) is in the design phase with a 2015 estimated completion date. Due to lack of funding, completion dates for the remaining projects have yet to be determined.

Insufficient oversight of airport revenue and AIP grants further jeopardizes FAA's investments. Over the past 10 years, we have identified nearly \$376 million in airport revenue that was illegally diverted, used for non-airport purposes, or was simply lost. Had these revenues been used for airport operations, the airports would have been more self-sufficient and less reliant on Federal funding. While FAA conducts airport revenue reviews, the reviews have been limited to a few airports a year. In general, FAA relies primarily on three oversight methods that have proven inadequate to prevent the diversion and loss of valuable airport revenue: (1) review

²³ *The Success of FAA's Long-Term Plan for Air Traffic Facility Realignment and Consolidations Depends on Addressing Key Technical, Financial, and Workforce Challenges* (OIG Report No. AV-2012-151), July 17, 2012.

²⁴ According to FAA, since the start of fiscal year 2000, 24 airfield projects have opened at 20 major airports. These include 16 new runways, 3 taxiways, 3 runway extensions, 1 airfield reconfiguration completed (included relocating a runway and constructing a new center taxiway), and 1 airfield reconfiguration to be completed this year (includes a runway extension and a new runway that have been completed, and another runway due to open in October 2013).

²⁵ Infrastructure projects as part of Phase 1 of the O'Hare Modernization Program.

of airport sponsors' annual revenue use reports; (2) single audit reports; and (3) third-party complaints. At the request of several House members from California, we are currently conducting an audit on FAA's oversight of Los Angeles International Airport revenue use.

Finally, reducing and recovering improper AIP grant payments has been a long-standing challenge for FAA. In 2010, we reported that FAA had made an estimated \$31 million in recoverable improper payments²⁶ during fiscal year 2008 and had not detected them. More recently, we reported that FAA's oversight was insufficient to prevent or detect more than \$1.4 million in recoverable improper American Recovery and Reinvestment Act of 2009 (ARRA) grant payments. In particular, we found that San Francisco International Airport officials improperly billed ARRA for over \$832,000 for unapproved taxiway and drainage work, as well as ineligible survey equipment. To address this challenge, FAA began implementing a new risk-based grant oversight process and an electronic grant payment system in 2012. However, it is too soon to know whether this additional step will significantly improve FAA's ability to prevent or detect future improper payments.

OPPORTUNITIES REMAIN TO BETTER ENSURE THE SAFETY OF THE NATIONAL AIRSPACE SYSTEM

While FAA works to achieve efficiencies in its operations, programs, and overall costs, it must continue to address ongoing safety concerns. FAA has several opportunities to enhance safety by improving its collection and analyses of safety data, including data on air traffic controller errors that create air and ground collision risks. FAA will need to enhance its oversight of aircraft repair stations and implement key provisions of the Airline Safety Act related to pilot safety. FAA also faces challenges with safely integrating unmanned aircraft into the NAS, developing a safety information sharing system to proactively assess risk, and improving its voluntary safety disclosure program for air carriers.

Data Collection and Analysis Enhancements Are Needed To Identify and Mitigate the Root Causes of Separation Losses

A top priority for FAA is to accurately count operational errors—events where controllers do not maintain safe separation between aircraft—and identify trends that contribute to them. FAA statistics indicate that reported operational errors rose by 53 percent between fiscal years 2009 and 2010. While operational errors remained at these levels during fiscal years 2010 and 2011, FAA reports that the most serious reported errors continued to rise by 49 percent from fiscal year 2009 to fiscal year 2011 (from 37 to 55, respectively).

In January 2012, FAA issued new policies and procedures for collecting, investigating, and reporting separation losses.²⁷ However, their effectiveness is limited by incomplete data and implementation challenges. FAA lacks an accurate baseline on the number of separation losses due in part to its limited review of Traffic Analysis and Review Program (TARP) data²⁸ and exclusion of some potential operational errors reported under the Air Traffic Safety Action Program (ATSAP)²⁹ from its official count. At the time of our ATSAP review last year, approximately 50 percent of all ATSAP event reports³⁰ were classified as “unknown,” and therefore some errors may have been excluded.³¹ Further, as we reported last month, FAA does not analyze and report all separation losses automatically flagged by TARP. Instead, FAA investigates losses of separation identified by TARP when aircraft come within less than 70 percent of the required separation distance.

²⁶In 2002, Congress passed the Improper Payments Information Act (IPIA), providing a framework for agencies to use in testing for improper payments, identifying their causes, and implementing solutions to reduce them. In August 2006, OMB established detailed requirements for complying with IPIA. OMB further clarified that improper payments include the following payments to ineligible recipients: duplicate payments, payments in incorrect amounts, payments for ineligible services or services not received, or payments having insufficient documentation.

²⁷Losses of separation occur when aircraft do not maintain the minimum required distance apart. Most losses of separation are classified as either an operational error (if the controller's actions caused the loss) or a pilot deviation (if the pilot's actions caused the loss).

²⁸TARP is an automated system that detects losses of separation at air traffic terminal facilities.

²⁹ATSAP is a voluntary, non-punitive program in which controllers can self-report safety incidents and concerns.

³⁰Event reports identify actual or potential losses of separation, including operational errors, or other situations that may degrade air traffic safety.

³¹FAA changed how it categorizes event reports in January 2012. However, the committees that review ATSAP reports still do not contact facilities if they believe an event is unknown to management.

In July 2012, we reported a number of management issues with ATSAP that the agency must address to correct known deficiencies and realize the program's full potential. These include a lack of formal processes to review ATSAP committee decisions on errors and enforce key program guidelines and requirements. Failure to address these issues not only undermines efforts to improve NAS safety but also may lead to the perception that ATSAP is an amnesty program that automatically accepts reports of serious incidents, regardless of whether they properly qualify under the FAA directive establishing the program.

Runway Incursions Continue To Increase

Runway incursions—potential ground collisions—are a key safety concern for FAA that requires heightened attention at all levels of the agency. As we noted in July 2010,³² the number of the most serious runway incursions—incidents in which a collision was barely avoided—decreased after runway safety initiatives detailed in FAA's August 2007 Call to Action plan were implemented.³³ However, shortly after our 2010 report, the trend reversed dramatically. Between fiscal years 2010 and 2012, reported runway incursions increased about 19 percent, and serious runway incursions tripled (see figure 2)—despite the fact that total air traffic operations declined by 1 percent between fiscal years 2011 and 2012. In addition, for the period of October through December 2012, total incursions increased by approximately 20 percent compared to the same period in 2011. As a result of these concerns, we plan to initiate another review of FAA's Runway Safety Program later this year.

Figure 2. Runway Incursions, Fiscal Years 2006 Through 2012



Source: OIG analysis of FAA data.

To help reverse these trends, FAA deployed the Airport Surface Detection Equipment-Model X (ASDE-X) system at 35 major airports in fiscal year 2011, at a cost of approximately \$550 million. ASDE-X enhances runway safety by providing detailed information to air traffic controllers regarding aircraft operations on runways and taxiways. However, ASDE-X does not directly alert pilots, as recommended by the National Transportation Safety Board (NTSB) in 2000. To address this shortcoming, FAA plans to integrate the use of ASDE-X with three other systems—Runway Status Lights (RWSL), ADS-B, and In-Cockpit Moving Map Displays. Integrating various systems to improve surface safety requires establishing requirements for technical upgrades, validating system performance and integrity, and determining whether ASDE-X capabilities can meet FAA's goals for increasing safety and capacity. We are currently assessing FAA's progress in integrating ASDE-X with other technologies such as RWSL and ADS-B to improve runway safety.

³² *Review of FAA's Call to Action Plan for Runway Safety* (OIG Report No. AV-2010-071), July 21, 2010.

³³ Specifically, these incidents declined from 25 reported in fiscal year 2008 to 6 reported in fiscal year 2010.

Oversight of Repair Stations Remains a Concern

According to FAA, there are nearly 4,800 FAA-certificated repair stations worldwide that perform maintenance for U.S.-registered aircraft. Forecasts show that the maintenance, repair, and overhaul industry will grow annually by 4.4 percent over the next 10 years, yielding a market value of between \$50 billion to \$65 billion for this segment of the aviation industry. These upward trends are expected to continue as airlines look to cut maintenance costs and increase profitability. However, since 2003, we have recommended that FAA strengthen its oversight of air carriers' contracted maintenance providers by developing a comprehensive, standardized approach to repair station oversight and targeting inspector resources based on risk.

In 2007, FAA implemented a new risk-based system to target its surveillance of repair stations. However, our ongoing review indicates that inspectors continue to complete mandatory inspections instead of targeting resources to where they are needed based on risk. Additionally, some inspectors do not use the risk assessment process at all; those that do are hindered in their ability to assess risk, due in part to limitations in data availability and quality. As a result, FAA has been ineffective at conducting risk-based oversight.

FAA's surveillance at foreign and domestic repair stations also lacks the rigor needed to identify deficiencies and verify they have been addressed. Systemic problems we identified during our 2003 review—such as inadequate mechanic training, outdated tool calibration checks, and inaccurate work order documentation—persist at the repair stations we recently visited. FAA guidance requires inspectors to review these specific areas during repair station inspections, but inspectors overlooked these types of deficiencies.

Given U.S. air carriers' continued reliance on repair stations to perform their aircraft maintenance domestically and abroad, it is imperative that FAA improve its risk-based system to provide more rigorous oversight of this industry. We plan to issue our report on FAA's oversight of repair stations this month.

FAA Faces Challenges in Implementing Key Pilot-Related Provisions of the Airline Safety Act

The fatal Colgan Air crash in 2009 raised concerns about a number of pilot performance issues, which culminated in the Airline Safety and FAA Extension Act of 2010.³⁴ Since the act's passage, FAA has made important progress in implementing many of the act's requirements, such as advancing voluntary safety programs and improving pilot rest requirements. However, FAA has not met the act's timelines for updating pilot training standards, implementing pilot mentoring and leadership programs, or establishing safety management systems.

In addition, FAA missed the act's deadline to substantially raise airline pilot qualifications by August 2012. The act mandates that all part 121 pilots obtain an Airline Transport Pilot certificate,³⁵ which requires 1,500 flight hours—six times the current minimum of 250 hours needed for a commercial pilot's certificate. Although FAA's proposed rule would provide some flexibility in meeting these requirements for pilots with relevant degrees or military flight experience, air carrier representatives remain opposed to the new requirement, contending that the quality and type of flying experience should be weighted more heavily than the number of flight hours. However, if FAA does not issue its final rule, the act's requirements will automatically go into effect for air carriers in August 2013, and FAA must ensure that carriers make the necessary adjustments to their pilot training and qualification programs.

FAA has also been challenged to develop an act-required pilot records database to enhance the screening process for newly hired pilots. For example, FAA needs to determine how to incorporate data from FAA, air carriers, and the National Driver Registry in a way that is accessible for air carriers to review during the pilot hiring process. The act did not establish a milestone for when the database should be completed, and the agency has yet to make key long-term implementation decisions.

FAA's Safety Oversight Role Continues To Expand as New Technologies and Programs Are Introduced Into the NAS

Over the next several years, FAA will be challenged by the introduction of unmanned aircraft, new integrated data systems for proactively identifying risk, and further use of voluntary disclosure programs.

³⁴ Airline Safety and Federal Aviation Administration Extension Act of 2010, Public Law 111-216, (2010).

³⁵ An Airline Transport Pilot (ATP) Certificate is the highest level of pilot certification. Pilots certified as ATP are authorized to act as pilot-in-command of an aircraft in commercial airline service. Additional eligibility requirements are contained in 14 CFR 61.153.

- Unmanned Aircraft Systems (UAS)*.—FAA predicts there will be roughly 10,000 active UAS in the United States in 5 years, with more than \$89 billion in worldwide UAS spending over the next 10 years. However, FAA has approved these operations on a limited, case-by-case basis, due in part to the safety risks associated with UAS integration into the NAS. While the capabilities of unmanned aircraft have significantly improved, they have a limited ability to detect, sense, and avoid other air traffic. Given the growing interest and potential safety issues associated with UAS flights, Congress recently directed the Secretary of Transportation, through the FAA Modernization and Reform Act of 2012, to develop a comprehensive plan for integrating UAS into the NAS no later than September 30, 2015. At the request of the Chairmen and Ranking Members of the Senate Commerce Committee and the House Committee on Transportation and Infrastructure, as well as their Aviation subcommittees, we are currently assessing FAA's progress in integrating UAS into the NAS. We expect to issue a report later this year.
- Aviation Safety Information Analysis and Sharing (ASIAS)*.—In 2007, FAA implemented ASIAS to collect and analyze data from multiple databases and proactively identify and address safety risks. ASIAS enables authorized users to obtain data from confidential databases—including voluntary safety programs such as the Flight Operational Quality Assurance program and the Aviation Safety Action Program—as well as from publicly available data sources such as NTSB's Accident and Incident Reports database. However, access to ASIAS data for FAA and industry representatives has been limited due to airline proprietary concerns.
In the Airline Safety and FAA Extension Act of 2010, Congress directed our office to assess FAA's ability to establish a comprehensive information repository that can accommodate multiple data sources and be accessible to FAA aviation safety inspectors and analysts who oversee air carriers. Accordingly, we are currently assessing FAA's progress in implementing ASIAS, its process and plan for allowing system access at both field and headquarters levels, and its use of ASIAS data to assist in commercial air carrier safety oversight. We expect to issue our report later this year.
- Voluntary Disclosure Reporting Program (VDRP)*.—As mandated in the FAA Modernization and Reform Act of 2012, we are conducting a review of VDRP, a program that allows air carriers to voluntarily report adverse safety issues to FAA without fear of enforcement actions, provided that carriers develop comprehensive solutions to identified safety issues. As part of this review, we are examining whether FAA ensures reports meet VDRP requirements, including the development and implementation of corrective actions, and whether the agency uses VDRP data to identify safety risks.

CONCLUSION

FAA faces many difficult decisions in the months ahead. To resolve the complex issues we identified, the agency must think strategically to prioritize those programs that can achieve the greatest benefits in the most cost efficient and effective manner possible. At the same time, FAA needs to protect its investments and assets that are vulnerable to misuse and abuse, while remaining focused on safety. Fully implementing our recommendations would better position FAA to control costs and create efficiencies as it works to enhance operations, successfully implement key programs, and address safety concerns. We will continue to work with FAA to ensure it meets its mission while protecting taxpayer dollars.

Madam Chairman, this concludes my prepared statement. I would be happy to address any questions that you or other members of the subcommittee may have.

BUDGET CONTROL ACT/CONTRACT TOWER PROGRAM/FURLOUGHS

Senator MURRAY. Let me begin by asking a question about FAA's contract tower program. Under the FAA's original plan to comply with sequestration, the FAA said they expected to save between \$40 million and \$50 million by shutting down 173 contract towers at soon as the first week in April. But under the FAA's most recent plans, 149 towers are expected to close, and my understanding is that that will start June 15.

Can you explain to us, Mr. Huerta, what the latest estimate is of how much will be saved by closing down those towers, and

whether those savings will significantly reduce the number of furloughs at the FAA?

Mr. HUERTA. Thank you, Madam Chairman. As we look at the need to achieve the savings of \$637 million that you noted in your opening statement, we have to look both at our contract expenditures as well as our pay and benefit expenditures. Our current estimate of savings from contract towers that we're going to be able to achieve based on the June 15 closure date is approximately \$25 million.

The savings from furlough days—we have notified our employees that they should expect to be furloughed for up to 11 days.

Senator MURRAY. Between now and September 30?

Mr. HUERTA. Between now and September 30. That represents 1 day per 2-week pay period between now and the end of our fiscal year. The total savings associated from those furloughs are slightly in excess of \$200 million. We have had an extensive effort, and it continues, to evaluate and review our ongoing expenditures, our contract expenditures, and our information technology (IT) expenditures, to find additional areas of savings.

We have significantly reduced travel by 30 percent, limiting it to operational travel, for example, when we have to send someone to fix a piece of equipment that might have become inoperative. Likewise, we have projected, and we expect to achieve, savings in our information technology infrastructure of approximately \$35 million.

We have focused on reducing our costs associated with training. We have canceled a new training program for new controllers at the FAA Academy for the summer in order to focus our resources on critical personnel needed to operate the National Airspace System.

It's with great regret that we have to look at closing lower activity facilities while at the same time reducing hours available for our employees. But as we all know, the sequester represents a very dramatic and very blunt instrument in terms of how we find reductions in expenditures. But in order to achieve them, we have to take the actions that we've talked about.

CONTRACT TOWERS

Senator MURRAY. Well, as you know, there's a lot of interest in protecting the contract towers in 2014. What will it take to get those contract towers back up and running in fiscal year 2014?

Mr. HUERTA. It depends on the nature of the specific contract tower. We've heard from approximately 50 of the 149 airport operators that they are exploring opportunities for local funding of the expense of the contract towers for some period of time. If that were the case for those facilities, it would simply be a change in who is paying the cost.

We have been negotiating with them an orderly handoff so that they can take over the facility and assume its cost when funding from the FAA would cease on June 15. Should the financial picture change in 2014, the handoff would simply work as smoothly going the other direction.

Senator MURRAY. And what would be the cost of that?

Mr. HUERTA. Well, the cost is they will continue to operate, and so it essentially is just a question of who pays. As it relates to a

facility that may elect to—or for whatever reason it might be necessary to close, then what we would need to engage in is a process to hire controllers, recertify controllers, and get them back up to speed in operating that airspace. That would represent an expenditure of both time and money in order to make that happen.

FURLONGHS

Senator MURRAY. So do you think it makes sense to close some down for the summer?

Mr. HUERTA. We have very few choices, and as we've talked about repeatedly, we're looking at a series of bad options to choose from. The sequester gives us few options but to achieve the required savings and to achieve them in this year.

Senator MURRAY. So let's talk about the furloughs, because we're hearing a lot about that.

Mr. HUERTA. Sure.

Senator MURRAY. You said up to 11 days. How many employees?

Mr. HUERTA. It affects 47,000 of our employees, which is most of them. The only employees that are exempt under the sequester legislation are those in our Airport Improvement Program.

Senator MURRAY. Right. So that includes air traffic controllers, safety inspectors, and we are hearing it's going to lead to a lot of delays this summer. What other actions has the FAA taken to avoid furloughs, and how did you decide who would get furloughed at the agency?

Mr. HUERTA. Let me take first the question, what other actions did we take. We started first at our contract expenditures and looked across the board at what we could do to dramatically reduce contract expenditures. And we focused on those activities such as the ones I mentioned that represent out-of-pocket cost, travel, information technology, and so forth.

We do have limits on our ability to reduce some contracts, though. For example, our single largest contract is the FAA's telecommunications infrastructure contract. That is a services contract with a private company that provides critical communication services between all air traffic facilities. That contract is worth about \$225 million on an annual basis.

So we had to focus in those areas that would not at the same time seriously cripple the mission. But our contract savings alone were not able to get us to our required savings.

By the way, I'd also like to mention that our third largest contract expenditure is for Federal contract towers. These facilities are low activity facilities. They have fewer than 150,000 operations on an annual basis and less than 10,000 commercial operations.

I would like to point out that we have thousands of airports in the United States that operate every single day in a non-towered capacity and operate safely. All but 1 of the 149 towers that we have slated for closure, in fact, close for a significant number of hours during the day. So they have a regular process for operating in a non-towered capacity.

But even looking at all of the contract expenditures, we were unable to achieve the full \$637 million in savings. So that's what led us to the need to furlough our employees. In looking across the agency as a whole, we established a principle that we needed to

find the appropriate balance of getting the cost savings that we needed to get, while at the same time having the ability to operate the system, maintain its safety, and recognizing that we were imposing a significant hardship on our employees.

Eleven furlough days between now and the end of the year represents one per pay period. That is a reduction of 10 percent of the pay of each employee, the 47,000 that are affected. From an operational standpoint, it represents a reduction of 10 percent of the available hours that employee is able to provide.

Senator MURRAY. And I'm hearing from some people that some air traffic control towers will be hit more in terms of operational ability.

Mr. HUERTA. No. We have allocated them equally across the whole system. But each facility operates differently, and it may have differing impacts, depending on the specific traffic conditions at that airport.

Let me give you a couple of examples, if I might. Chicago's O'Hare Airport is a major hub airport. It operates with two air traffic control towers, one on the north side of the airport and a central tower that operates for the entire airport. In order for us to be able to operate the north tower of the airport, we have to have a minimum complement of air traffic controllers available to staff a minimal number of positions.

RUNWAY INCURSIONS

If we can't staff all of that minimal number of positions, then we must consolidate operations to the central tower. The airport can continue to operate, but what it means is we lose the ability to use one runway, because that north tower is essential to control the northernmost runway of the airport. So that is an example of how relatively small reductions of hours can significantly affect the operations of an airport.

Senator MURRAY. And that's Chicago—does LAX—

Mr. HUERTA. The Los Angeles airport is a four-runway airport, but it is also a major hub airport for quite a number of operators. In the case of the Los Angeles airport, their traffic loads are such that they're relatively constant during the day. Already at Los Angeles, the north airfield operates under significant operational restrictions because of very closely spaced parallel runways that exist at that airport. And the airport does have a long-term plan to improve that.

But, again, if I have fewer controller hours available to me, then what it affects is the efficiency of the airport. Our highest priority is to ensure that it operates safely, but where we take a penalty is inefficiency.

Senator MURRAY. Okay. And I apologize to the subcommittee for running way over time, but this is what we're hearing from a lot of our airlines at this point: Some of our airports are going to be significantly impacted for reasons they don't understand, like vacations and those kinds of things. So I think it's really important that everybody understands how you got to these decisions and how we're going to move forward on that.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman. As I highlighted in my opening statement, the total number of runway incursions increased 21 percent between fiscal year 2011 and 2012 from 954 to an all-time high of 1,150.

Administrator, what is the FAA doing to reduce this alarming increase and ensure the safety of the traveling public on our Nation's runways? And to what do you attribute the large increase?

Mr. HUERTA. Thank you, Senator Collins. Let me take the second part of that first. Reported runway incursions reached an all-time high of 1,150 in fiscal year 2012. We believe this number is reflective of changes in our reporting culture through voluntary safety reporting systems, as well as enhanced use of electronic detection systems, expansion of reporting requirements and the deployment of new systems that were designed to streamline reporting.

Nonetheless, this is something that we take very, very seriously. The fiscal year 2014 budget request supports our efforts to reduce runway incursions and to improve airport surface safety. Some of the initiatives that we're talking about include airport safety reviews. This involves conducting airport safety and certification inspections at each of our certificated airports to ensure that the signs, the markings, and the lighting all meet national standards.

Also, airport driver training programs and records are reviewed as a significant part of this, because, as you know, there are a lot of regular vehicles that operate at the airport, and they have to understand how to move on the airfield.

We've been conducting runway safety action team (SAT) meetings, and our fiscal year 2014 budget request would continue to support those. Our SAT meetings improve multidisciplinary teams conducting safety reviews at selected airports based on analysis of the data.

The team is there to improve runway safety through coordinated actions with all components of the aviation community and the FAA lines of business to really understand if there's a design issue or if there's a training issue that we need to address at a particular airport, which takes me to training. There is a significant focus that we've placed on conducting training seminars to provide knowledge, guidance, outreach, and awareness at all levels, and really focusing on if we have the right kind of training in place.

I'd also like to talk about industry involvement. The Runway Safety Council (RSC) consists of officials not only from the FAA and other partners in Government, but also industry and labor. What we want to do is meet regularly to determine root causes of runway incursions. This is part of a collaborative decisionmaking process that we're trying to adopt across the whole FAA to bring everyone together.

Senator COLLINS. Mr. Scovel, do you agree with the analysis that the Administrator just gave that this may reflect better reporting rather than an increase in the problem?

Mr. SCOVEL. Not entirely, Senator Collins. Here's what our examination has revealed. There is a better reporting culture within the FAA among the controllers, and we certainly acknowledge that. The voluntary reporting programs, such as ATSAP, the Air Traffic Safety Action Program, has encouraged controllers to come forward, knowing that there will be non-punitive results from their

self-disclosures, and that has certainly increased, we trust, the number of operational errors or reported runway incursions over time.

However, we also note that better reporting tools, such as TARP and the TRACON environment and a longstanding reporting tool in the en route environment, have also been capturing more and more previously unreported operational errors. And that, too, has been driving the number up.

You asked specifically about runway incursions. Before I address that, very quickly, let me note also that the data collection across the board and the analysis of that data—we have identified areas for improvement for FAA. With regard to runway incursions, as the subcommittee will well remember, that is the number one item on the National Transportation Safety Board (NTSB) most wanted list every single year, and it has been for more than a decade.

Senator COLLINS. Which troubles me, because it's going up, not down.

Mr. SCOVEL. It is going up. The subcommittee will remember that in 2007, the FAA issued a call to action for runway safety in light of a previous rise in runway incursions. And between 2007 and 2009, 2010, that call to action achieved commendable results largely through the measures that Administrator Huerta cited just now as those that are returning to emphasis under his leadership.

We believe that the agency's attention perhaps drifted off some of those safety measures after the initial successes of that 2007 call to action. I commend the Administrator for returning the agency's attention to those, because, certainly, in our view and the view of the NTSB, those will yield the greatest success in terms of reducing runway incursions.

There are technological innovations as well, runway status lights, Automatic Dependent Surveillance-Broadcast (ADS-B), SDX, surface protection technology, all of which the agency is working to implement, encountering some difficulties on those. But we encourage the agency to persist, and we're certain that those will yield better results as well.

Senator COLLINS. Thank you. I'm just going to ask one quick second question. I see we have a lot of members here.

AIRPORT IMPROVEMENT PROGRAM GRANT FUNDING

Administrator, I want to ask you about a part of the budget that just makes absolutely no sense to me. On the one hand, the administration is proposing a \$450 million reduction in the Airport Improvement Program, while at the same time the President's budget proposes what he calls an immediate Transportation Investment Program that provides an additional \$2 billion.

Could you please explain to us in a brief statement, given our other members who are here, the rationale behind what appears to be taking away money from the same program with one hand and then giving it back with another program? Now, let me say I fully understand that you're restructuring AIP to drop the larger airports and allow an increase in the passenger facility limits. But this still seems to be an odd juxtaposition of reducing by \$450 million on the one hand and then increasing by \$2 billion.

Mr. HUERTA. Thank you, Senator Collins. As you point out, the two pieces that you referenced are designed to do two different things. The first is a restructuring of the AIP program. The budget requests a total AIP level of \$2.9 billion, which is \$450 million below our fiscal year 2012 enacted level, and it is paired up with an increase in the passenger facility charges (PFC).

PASSENGER FACILITY CHARGE

Now, consistent with the recommendations from the President's Deficit Reduction Commission, all guaranteed funding for approximately 29 large hub airports would be eliminated under this proposal, because they would have the ability to raise significant funding through the passenger facility charges. Medium, small, and non-hub airport passenger entitlements as well as non-primary entitlements would then be calculated at levels that are consistent with the formulas in effect under current law when the total funding level is below \$3.2 million.

Now, in terms of the \$2 billion proposal, what that reflects is an interest on the President's part to catch up on the backlog of infrastructure improvements in airports which are required. It is a one-time program that would enable us to accelerate the development of a large number of projects that have been in the pipeline and at the same time create needed jobs for the economy.

Senator COLLINS. Well, thank you very much, Madam Chairman. I would just note that it certainly seems duplicative to me in terms of the purpose of the AIP program. Thank you.

Senator MURRAY. Senator Feinstein.

Senator FEINSTEIN. Thank you very much, Madam Chairman.

UNMANNED AIRCRAFT SYSTEMS

Mr. Huerta, I'd like to confine my question time to this new area of unmanned aerial vehicles known as drones. And as chairman of the Intelligence Committee, I've had an opportunity to understand how potentially dangerous these items are and how they vary in size and scope and ability.

I understand that the 2012 reauthorization act orders you to develop a comprehensive plan to integrate unmanned aircraft into the national airspace no later than September 30, 2015. And it's my understanding that, to date, the FAA has permitted more than 300 unmanned public aircraft so far. For example, the Department of Homeland Security is using surveillance drones to monitor the border. These are not armed, we are told.

Is what I have just said essentially correct?

Mr. HUERTA. That is correct, Senator Feinstein.

Senator FEINSTEIN. Well, I am very worried about two things. One is safety, and the other is privacy. There was a hearing in the Judiciary Committee not too long ago on drones, and we had one example of a drone that was very small and used by a Colorado sheriff's department. I am familiar with drones that are quite large, that are armed, and are used in various places in the world for various tasks.

The fact that they're unmanned, the fact that you may license them for one use, doesn't mean they can't be converted to another

use. Has the FAA looked at that and recognized the potential danger of the development of drones in commercial airspace?

Mr. HUERTA. Thank you, Senator Feinstein. Unmanned aircraft is a technological frontier area that we're trying to accommodate. The direction that we've received from Congress, as you point out, is how we can safely integrate them into the National Airspace System by 2015. You're also aware that the reauthorization act of last year requires us at the same time to designate six test sites to test and understand how this technology would be incorporated into the National Airspace System.

The purpose of the test sites is to enable us to develop data and information along the lines of what you're talking about: How these things are used, what can we learn from them, and questions related to other factors as well. As we were developing the information request to solicit proposals for the test sites, we heard what you heard, which was a lot of public concern about privacy and how these particular vehicles could be used, and did it raise questions about invasion of privacy.

Now, privacy is not something that Congress asked us to look at, nor is it something that the FAA has the authority to regulate. But we did determine that it was important for us to frame the question as we were looking at the test site request for proposals.

What we did was at the same time we released the request for proposals for the test sites, we also published a notice that we would require whoever is designated as a test site operator to publish a privacy protection policy and make that available to the public so it is out there for everyone to see how the data that would be developed through the use of this unmanned aircraft would be used, and does it raise any privacy questions.

I think this is a complicated issue. It's new for us. We relied on the expertise of people that had regulated this area in the past. As an evolving technology, it's one that we're going to have to watch very carefully. There is significant interest on the part of State and local law enforcement for the use of unmanned aircraft for the surveillance purposes that you talked about. There are differing laws at the State level about how these aircraft might be used.

I think that as we develop the data and as we do additional testing, it's certainly something that we are going to be looking at very carefully. But it's not something we have the authority to regulate.

Senator FEINSTEIN. Here's my concern. I understand that. So you could have thousands of these things in the air. How do you control them? How do you keep them from getting into air traffic? And I understand they might have a height limit of 400 or 500 feet. How do you keep them away from airports? You know, there's even a report that a pilot saw one. Was that true or false? I don't know whether it is true or false.

Mr. HUERTA. We had the report that a pilot saw what they determined to be either a model airplane or an unmanned aircraft, yes.

Senator FEINSTEIN. Is there any more information on that, or is that pretty much what it is?

Mr. HUERTA. That's pretty much what it is. But on your question of how can we regulate them safely, this is exactly what we're trying to determine. Through the use of certificates of authorization as well as the test sites, what we need to develop a better under-

standing of is how these aircraft operate in ways that are both similar and different from manned aircraft that operate in the system every day.

The direction we've received from Congress is to safely integrate unmanned aircraft. And so the thing that we care the most about before we allow widespread use of unmanned aircraft is to ensure that they can operate safely, both on their own, but also in conjunction with other aircraft.

Senator FEINSTEIN. I've just learned that there's even an association promoting drones.

Mr. HUERTA. Yes, that's correct.

Senator FEINSTEIN. And there's so much that needs to be looked at very seriously, I think, before we do this. The privacy questions are enormous. Now, I understand that's not really your jurisdiction. But in these test sites, which I assume are not overpopulated areas, will the people that enter into the test have specific privacy policies to which they subscribe the use of their drone to?

Mr. HUERTA. The designation of the test sites would need to be accompanied by a privacy plan. We're not in a position to make a determination of the content of the plan, but what we would require is that they develop one, that they make it available to the public, and it is available for people to read and understand.

Senator FEINSTEIN. I know they wouldn't legally carry munitions. But there's nothing to stop someone from arming one with munitions, and that's my big concern.

Mr. HUERTA. Well, to a certain extent, that risk exists today with manned aircraft through the extensive use of general aviation that takes place—

Senator FEINSTEIN. Yes, but not in commercial aviation.

Mr. HUERTA. Not in commercial aviation. That is correct.

Senator FEINSTEIN. But there will be many more drones than there are private aircraft, most likely.

Mr. HUERTA. Well, this is something that we're going to have to try to understand. You are correct. There are industry proponents that really see this as the next frontier of aviation and are actively promoting the use of these aircraft. There are a lot of beneficial uses that the industry is promoting as well, for example, weather surveillance or environmental initiatives, where they're examining, for example, loss of ice in the Arctic areas or surveying of coast lines, mapping activities.

Senator FEINSTEIN. I think we would all agree with that. It's what's outside of that that's of deep concern.

Mr. HUERTA. But this is what we need to focus on, and this is what we will need to learn as we develop this information.

Senator FEINSTEIN. Good. I'm glad to hear that. My time is up, and I thank you.

Senator MURRAY. Thank you very much.

Senator Moran.

Senator MORAN. Thank you, Madam Chairman.

CONTRACT CONTROL TOWERS

Administrator Huerta, I want to focus on the control towers. Has there been a safety analysis completed on each one of the 149 towers that you propose to close?

Mr. HUERTA. Senator Moran, yes. We did conduct an analysis and determined that it was feasible for each of these towers to operate safely. That was the first decision. The second decision—

Senator MORAN. It was capable for each of these towers to operate safely.

Mr. HUERTA. Correct.

Senator MORAN. The towers are operating safely?

Mr. HUERTA. No, for the airport to operate safely—

Senator MORAN. In the absence of a tower?

Mr. HUERTA [continuing]. In the absence of a tower. The second part of the question then becomes how we get there. It was for that reason in working through with our local sponsors and partners that we decided to introduce the delay to June 15 to ensure that everyone fully understood how that transition would work.

As I mentioned in my earlier remarks—this was before you arrived, sir—every one of these towers except one operates in a non-towered capacity for some portion of the day. So there are well-established rules of how the airport operates in a non-towered capacity. The tradeoff is in order to maintain a safe operation, what you might sacrifice is efficiency. So they may operate less efficiently in a non-towered capacity, but they will certainly operate safely.

Senator MORAN. So the 149 air traffic control towers that potentially will be closed were never necessary for safety reasons?

Mr. HUERTA. We have thousands of airports that operate in the country every day that—

Senator MORAN. That's not my question. Are the airports that we've had towers at—were those towers placed there because they were important for safety?

Mr. HUERTA. The towers were placed there for a variety of reasons. But my point is that we are not doing anything that is not safe. The airport can continue to operate in a non-towered capacity safely, just as they do for many hours of the day.

Senator MORAN. Do the airports then operate in a less safe manner? You're saying they're safe, but how can they be as safe without a tower as they are with a tower?

Mr. HUERTA. What we do is we transfer responsibility to the pilots, and we limit and separate traffic greater distances to ensure added margins of safety if there is not a tower right on the airport.

Senator MORAN. Can you provide the subcommittee with the separate analysis of each airport of the 149?

Mr. HUERTA. There is different analysis that we have done, and we can certainly provide that to the subcommittee.

[The information follows:]

Safety analyses were conducted for each airport subsequent to the development of a safety case that looked into airport standards, equipment, procedures, provision of critical information to stakeholders and pilots, and impact on neighboring facilities. This process identified 20 mitigations required for the withdrawal of funds. These requirements were then applied to each facility and a mitigation implementation plan developed for each airport. We have provided the subcommittee with the FAA safety risk management document that contains all of this information.

Senator MORAN. When did you do the analysis?

Mr. HUERTA. We did the analysis as part of our overall review where we looked at the activity levels associated with these towers, we consulted with our partners in the Defense Department and the

Department of Homeland Security, and then once we made the decision, we've been consulting with local airports.

Senator MORAN. What was the timeframe in which the analysis was done, and how long did it take?

Mr. HUERTA. The analysis was done over the earlier part of this year. We spent several weeks looking at this question of how we would close these facilities.

Senator MORAN. Were there any airports that you determined needed a control tower to remain safe within that program?

Mr. HUERTA. Yes.

Senator MORAN. How many were they?

Mr. HUERTA. I will get you an exact number for the record.

[The information follows:]

As a result of the safety analyses we determined that 19 facilities needed to remain open for an additional period of time in order to evaluate the impact on neighboring air traffic control facilities in the event those towers did close and did not continue operating as non-Federal contract towers.

Mr. HUERTA. But in general, if two characteristics were met, they were located in busy congested airspace adjacent to a major commercial airport and so the handling of those activities in conjunction with the major airport was a factor to consider; or, secondarily, based on discussions with the Defense Department, where it served a significant national security purpose.

Senator MORAN. Is that the analysis that was done by the airports that requested they not be closed because of national interest? Is that the ones that you were then——

Mr. HUERTA. That was part of it, yes, sir.

Senator MORAN. But there were airports that had air traffic control towers before the request for demonstrating a national importance, a national need, that were determined—that a control tower needed to be there for safety in this instance. But in other instances, the control tower was not necessary for safety.

Mr. HUERTA. It's a function of configuration and traffic and efficiency of the airport. We're not doing anything that is not safe, and each airport operates under different conditions.

Senator MORAN. Do you disagree with the testimony of the NTSB at the Commerce hearing that you were at earlier this week that talked about the importance of the redundancies that the air traffic control tower provides and the safety that's necessary, that follows that redundancy?

Mr. HUERTA. I think what the chairman said was that they had not done a specific analysis of towered versus non-towered airports. She did note that safety is a function of many layers of safety. As I've said, we are not doing anything that would make the airports operate unsafely. In the event there is any tension between safety and efficiency, what will suffer is efficiency. But the airports will operate safely.

Senator MORAN. I have a series of questions, but my time has expired on my first question.

Mr. Huerta, let me make sure that I understand what you're saying is that none of the airports are any less safe when the tower is closed than they were when the tower was there. You say they're all operating safely. But my question is has safety been reduced?

Mr. HUERTA. It is not, because the nature of the operation changes in a non-towered capacity. They operate less efficiently. We put more separation—pilots are required to communicate with each other, and that compensates for the lack of a tower.

Senator MURRAY. Thank you very much.

FURLOUGH IMPACT ON NEXTGEN

I wanted to ask you about the furlough's effect on the FAA's ability to move forward on NextGen. Even if a capital program is fully funded, FAA still needs to have engineers there and traffic controllers on the job in order to get the work done.

Mr. Huerta, talk with us about the impact the furloughs are going to have on NextGen and especially on ERAM, which provides a foundation for FAA's modernization.

Mr. HUERTA. The most significant problem with the furloughs and how it affects NextGen is how it affects what we call the collaborative workgroups. These are workgroups that are made up of stakeholders, controllers, management in facilities, and these workgroups are essential for us to work through deployment problems associated with new technologies and ensuring that we're able to address training and development issues associated with the deployment of new technologies.

We have a large number of these workgroups. They tend to be very site specific. For example, as we're deploying ERAM in a given air traffic center, there will be a collaborative workgroup that supports that deployment. Likewise, in our Airspace Modernization Program, such as our Greener Skies Over Seattle initiative that you're familiar with, we would have a collaborative workgroup that would work on the design of those procedures.

As a result of the reduction in controller hours, we have found it necessary to pull back people that would otherwise be working on collaborative workgroups to their home facilities so that they can deal with day-to-day operations to mitigate the impacts that we would otherwise have on day-to-day operations. And so that, of necessity, is going to introduce some delay in the continued rollout.

The deployment of ERAM—I feel we are in a very good place, where we are right now, as a result of the use of these collaborative workgroups. But I can envision a situation until we can restart them that some of the later sites may be delayed for final deployment.

Senator MURRAY. Mr. Scovel, you've done a lot of analysis on the ERAM program and its progress. And your most recent audit recognizes the FAA has improved its management of ERAM and turned it around but said there's still some risks. In particular, you said the program is spending its money quickly and some of the hardest work is still ahead.

What does the FAA need to do to manage these risks? And, in particular, do you think sequestration cuts will add to the FAA's challenges?

Mr. SCOVEL. To your last point, Madam Chairman, sequestration will certainly add to FAA's challenges in dealing effectively with ERAM. What we have learned over the last several weeks is that FAA will continue to support facilities that use ERAM on a full-time basis. Those are currently 10: Salt Lake City, Seattle, Min-

neapolis, Albuquerque, Denver, Chicago, Los Angeles, Oakland, Houston, and Kansas City.

But the program will halt activities for five facilities that were working to transition from part-time use of ERAM to full time. And those facilities would be Memphis, Cleveland, Washington, New York, and Boston. In addition, the agency will stop plans for the last four sites that are currently using Host, the legacy system, full time to control air traffic, and they have not yet begun transitioning to ERAM. Those would be Atlanta, Miami, Jacksonville, and Fort Worth.

The reason for all of this is precisely what Administrator Huerta outlined. The collaborative workgroups that involve a significant number of controllers have had to be reduced or, in some instances, eliminated from the group of four or the group of five in order to ensure that those controllers are available for their primary duties.

EN ROUTE AUTOMATION MODERNIZATION

This will have an impact on ERAM, certainly, through the rest of this fiscal year, the year in which sequestration is fully upon us. But because of the ripple effect of suspending transition operations at these other nine centers, we can expect that into fiscal year 2014, ERAM will similarly be hobbled—perhaps that is the right word. It would not be, certainly couldn't be, as far along as it would had sequestration not impaired the agency's ability to use controllers in these workgroups.

The agency through dint of main effort has set August 2014 as the firm and fast deadline for implementation of this initial phase of ERAM. I caution the subcommittee, however—and the industry is certainly well aware—that whatever state ERAM is in in August 2014 will not be what was fully envisioned when ERAM was first contracted some years ago.

It will also necessitate further software releases for several years thereafter. In fact, one is planned for fiscal year 2014 and thereafter to the tune of close to \$1 billion. That will, again, position ERAM to most effectively support NextGen—impact on NextGen most certainly because of the impact of sequestration on ERAM.

Senator MURRAY. I've gone over, but I want to ask you one additional question, Mr. Huerta. I may have to run to another hearing, and in a truly bipartisan fashion, Senator Collins has agreed to chair if I have to leave. But I did want to ask you one additional question.

ALTERNATIVE JET FUELS

I'm really pleased that FAA has been working hard on making air traffic more sustainable, and there are a lot of ways to tackle that problem. I am particularly interested in the potential of alternative jet fuels. My home State of Washington is making some really great strides in research and development of some really promising technologies that will help us move toward some alternative jet fuels.

We've got industry, nongovernmental organizations, universities. They've all joined together in a consortium—Sustainable Aviation Fuels Northwest—to evaluate some of these opportunities and chal-

lenges around alternative jet fuels. As you know, the FAA has created a Center of Excellence on this.

Can you tell us a little bit, real quickly, in a short amount of time—and maybe answer me offline as well—about your vision for these centers?

Mr. HUERTA. The vision for the new Center of Excellence is to help us tackle the energy and environmental challenges facing aviation and to ensure sustained aviation growth but in a sustainable manner. Aviation has always faced challenges with energy, noise, air quality, and climate, and what this really says is you need an integrated approach to look at how all of these things relate to one another.

The idea is that the center would help us through research and development activities to develop a much better comprehensive understanding. The focus of the new center will help us achieve our aspirational goal of having 1 billion gallons of alternative jet fuel in use in aviation by 2018 and ensuring the widespread use of these fuels in the longer term.

Now, we've received proposals and we're reviewing them in response to the competitive solicitation that we put forward, and this should be completed in the next few months, at which time we will provide a formal notification.

Senator MURRAY. I very much appreciate that.

I'm going to turn to Senator Collins, and, again, I may just leave in just a short minute. But, again, thank you, Senator Collins for taking over for me on the subcommittee and to our subcommittee members.

Senator COLLINS [presiding]. I'm honored to do so and pleased that you trust me to do so, Madam Chairman.

First, let me associate myself with Senator Murray's comments about alternative jet fuels. We have some really interesting research going on at the University of Maine in this area. And I, too, think that it holds great potential, and I hope this is something that we will see the administration continue to encourage and fund some of the basic R&D that is necessary.

AIRPORT IMPROVEMENT PROGRAM FUNDING

I want to return to the Airport Improvement Program and ask some basic questions of you. First of all, what percentage in dollar amounts of the Airport Improvement Program grants currently go to small airports? And, second, under the budget proposal for AIP, will there be an increase or a decrease in funding to go to small airports? I understand what you're doing with the big airports, so I don't want you to take the time up on that.

Mr. HUERTA. In fiscal year 2013, we estimate that the small airports would receive about \$2 billion or 63 percent of the \$3.2 billion in total AIP grant funding. This includes entitlement and discretionary spending, but does not include entitlements that may have been carried over from previous years.

Under the fiscal year 2014 budget proposal, small airports would be expected to receive about \$1.9 billion or 69 percent of the \$2.75 billion in total AIP grants. So that's an estimated decrease of about \$121 million.

Now, while small airports would receive less AIP funding overall, the programmatic changes that accompany this in the budget would increase the amount of discretionary dollars that are available to small airports because of the suspension of the large airports from the AIP program. So, therefore, that means that the small airports would have more access to the \$801 million in fiscal year 2014 discretionary spending.

Senator COLLINS. So for the small airports, overall, there's an estimated decrease of \$121 million from fiscal year 2013. You're pointing out that the small airports would have more access to the \$801 million in discretionary funding. But isn't it accurate to say that they are not guaranteed the same level of funding that they had received from the entitlement part of the program, the formula part?

Mr. HUERTA. It is true that the formula would be reduced. But since we are excluding their large competitors for the discretionary program, I would feel confident that they would be able to get back to those levels through the discretionary program.

787 DREAMLINER

Senator COLLINS. Thank you. I want to talk about the 787 Dreamliner. Some experts have contended that the Dreamliner incidents have revealed that the FAA lacks the expertise to effectively test and evaluate new technologies such as the lithium batteries, and thus is relying too heavily on Boeing to vouch for the safety of the system. What's your response to that concern? Do you agree with that?

Mr. HUERTA. I don't. For 50 years, the FAA has relied on a system of shared technical expertise being brought together, where we assemble the best technical experts both from inside the Government as well as from industry to make determinations on how we set the highest levels of safety. But the FAA always retains the ultimate responsibility to make the call and to issue the certification.

Aviation by its very nature is about pushing technological boundaries, and so when a new technology is presented as part of a new aircraft or a new piece of equipment, we bring together technical experts that understand that technology and its interactions in an operating context. Based on that process, we set certification standards, and that was the case for the 787. It's a process that has served us very well for 50 years, and it will continue to serve us well in the future.

Senator COLLINS. Mr. Scovel, do you agree with that? Does FAA have the expertise in-house that it needs, or is it too reliant on trusting the contractor? I'm just using Boeing as an example. There, undoubtedly, are others.

Mr. SCOVEL. I understand. I need to start by issuing a caveat, and that is we don't have current work, any work, specifically, examining the 787 question and supposed over-reliance by the agency on Boeing's own engineering expertise. I can say that we have examined certain facets of the FAA's certification program.

One that we expressed concern about in a report a couple of years ago was FAA's reliance on organizational designation representatives. These are company airline manufacturers, representatives, employees, who are detailed, in effect, to the agency. They re-

main on the manufacturer's payroll, but they are performing the certification responsibilities that Administrator Huerta outlined.

Over the development of that program in more recent years—and it's been in effect for a long, long time, so it's not a new development—but as the program has been refined in more recent years, the ability of FAA to review the qualifications, performance, or even the conduct of those company employees who are performing FAA responsibilities has been diminished by mutual agreement between the agency and the manufacturers involved to include Boeing.

We are concerned that that relinquishment of overall supervisory authority over such designees by the agency may, in effect, at some point raise the question of whether the agency is properly exercising its certification responsibilities.

Senator COLLINS. Thank you.

Senator Feinstein.

Senator FEINSTEIN. Thanks very much, Madam Chairman. I appreciate it.

HELICOPTER OPERATING PRACTICES

I want to raise an old saw, and it's unregulated use of helicopters. As you know, this is a source of major concern to millions of Angelinos, and I understand the same thing is true in New York City. And these are helicopters flying low and spying on prominent people, particularly in the Los Angeles area.

Our fiscal year 2013 bill directed the FAA to complete a report on the subject. It's my understanding that your regional administrator, Bill Withycombe, has held public hearings and is looking at the problem and has committed to releasing a report in May of this year. That report is meant to evaluate a full set of voluntary and regulatory options to reduce helicopter noise and address the safety issues, as well as, candidly, privacy issues.

Is that report going to be released in May of this year, Mr. Huerta?

Mr. HUERTA. Yes. In response to the congressional request, we have, indeed, undertaken LA helicopter noise initiative, and we are intending to release it to Congress in May of this year.

Senator FEINSTEIN. Good. Do you have any indications of what might be forthcoming?

Mr. HUERTA. Well, these are always very complex issues. As a result of this noise initiative, community interests, helicopter operators, have been meeting regularly under the leadership of our regional administrator there in Los Angeles. The purpose of this is to identify very specific noise sensitive locations that exist there, helicopter operating practices, and other things which contribute to the residents' concern about noise pollution that exists in the neighborhoods.

It's a group that we're finding to be very committed to finding solutions that provide noise relief while not degrading or eroding the business operations that exist there. I think it's fair to say that we would place a greater emphasis on working this out locally and reaching agreements. The reason for that is it gets you to solutions more quickly than a traditional rulemaking might.

If the operators can develop a much better understanding and through the use of such things as notices to airmen or NOTAMs and outreach to the helicopter operators, engaging the local officials—for example, a lot of the concerns might come through the use of police helicopters or news organizations—and you bring the parties together and work through how they actually operate, often that will get us to solutions. But this is all the stuff that we're looking at there in Los Angeles.

Senator FEINSTEIN. I think if you just kept them out of residential areas and maybe with a waiver for police, that might solve the problem. But as you know, Los Angeles has a large Hollywood community, and these helicopters regularly are a problem in these residential areas. The question is do they really belong there to kind of be spying on people, and that's not a legitimate business interest.

Mr. HUERTA. Well, I think that, clearly, there is significant concern about helicopters that are, in the views of the residents, just there to make mischief. But I think the distinction that I was drawing was regulatory versus non-regulatory approaches. If we can solve the problem through non-regulatory approaches, it happens much more quickly. If we still have a problem as a result of those efforts, then it is something that we have to take another look at.

Senator FEINSTEIN. Well, let me say that I appreciate that, and I appreciate the action. I know it's controversial, but I can tell you the complaints are large and the distress is large. So I'm very grateful for that.

Mr. HUERTA. Well, Senator Feinstein, as a Californian, I hear from your constituents.

Senator FEINSTEIN. Yes. One other thing. Is there any reason why a drone pilot should not be certified and licensed?

Mr. HUERTA. This is actually one of the questions that we are examining as part of our overall review of how we incorporate them into the National Airspace System: What should be the requirements of an operator of an unmanned aircraft?

Senator FEINSTEIN. Because they also ought to be identifiable. If I understand what's coming down the pipe, it's hundreds of thousands of these things flying everywhere. And I think it's a real hazard and that we really need to be able to identify abhorrent behavior, that the pilots who pilot them, whether they're crop dusting or doing anything else, should have a specific legal responsibility.

Mr. HUERTA. Well, that is one of the questions that we are examining as part of safe integration.

Senator FEINSTEIN. Well, I'm going to introduce legislation to require it. So I don't know where that will go, but I have real concerns, and I would hope that the FAA could understand this, because the first big accident we have is going to change the whole dynamic, and it will happen.

Is there a limit on size that the FAA certifies?

UNMANNED AIRCRAFT SYSTEM

Mr. HUERTA. There are different operating characteristics for very small unmanned aircraft systems (UAS). Essentially, what we're trying to do is draw a distinction between what is a modeler,

who might be flying a model airplane—as long as they’re flying at very low altitudes and not interfering with any kind of commercial aircraft—that’s a category where we have much less concern.

But as you pointed out in your previous statements, unmanned aircraft that operate for a wide variety of purposes at higher altitudes can be of very different sizes, and our big concern is how do we safely integrate them with other aircraft.

Senator FEINSTEIN. Well, you know, one of the things I’m familiar with is the real-time video that can be taken off of these.

Mr. HUERTA. Sure.

Senator FEINSTEIN. Consequently, they are real spy machines. Now, is that something we want in commercial service in the United States of America? And I think that’s a very real question with which the industry has to grapple.

Mr. HUERTA. That’s a fair question, and I think that’s one of the things that we will learn more about as a result of these test sites and data gathering that we’re going to be doing.

Senator FEINSTEIN. Well, let me ask you this. Can this get ahead of you?

Mr. HUERTA. It’s a very rapidly evolving technology.

Senator FEINSTEIN. Yes.

Mr. HUERTA. And I think it’s fair to say that the public is only now coming to grips with what the full implications of that are. I have stressed to the industry associations the importance of them being very transparent about what the potential for these activities needs to be. But I think that we as a country need to look at this technology very carefully, and while we’re very focused on how we safely integrate them, larger questions are raised that we and our Government partners will need to consider in the months and years ahead.

Senator FEINSTEIN. And exactly—you know, I can envision drone fights in the air, drones cracking into each other. So I think they have to be identifiable. I think the pilots have to be certified. We have to know who’s doing this, because it doesn’t take much to put a munition on it once you’ve got the know-how.

So I know the company that makes most of these, I visited in California, and it’s certainly a first-rate company, but that also troubles me because their ability to innovate is so great. So I would just like to urge you to give your attention to this subject, because what we do is going to make a huge difference down the stream, even before we know the full implications of this.

Mr. HUERTA. That’s very good counsel, Senator.

Senator FEINSTEIN. Thank you. Thank you very much.

Senator COLLINS. Senator Moran.

Senator MORAN. Senator Collins, thank you very much.

Administrator, I want to go back to something I raised with you in my earlier round of questioning, and I want to make sure we have an understanding of what you’re going to do in providing copies of the analysis. Those words, analysis, study, exam, review, have different meanings. We use those words many times, and I’m not sure they always mean the same to each person using those words.

CONTRACT CONTROL TOWERS

So I'm really interested in seeing what kind of analysis, study, exam, review that the FAA did to demonstrate the safety of your decision. And as I understand it, you did an analysis of each one of the 149 control towers and reached a conclusion in each instance that it would be safe to eliminate the control tower. I want to confirm with you that you will provide that analysis on each one of those towers to the subcommittee and then ask you what kind of timeframe that will take.

Mr. HUERTA. I'll need to provide a response for the record in terms of what kind of a timeframe that will take.

[The information requested by the subcommittee was submitted by the Federal Aviation Administration on CD media on June 10, 2013.]

Mr. HUERTA. The analysis that we conducted was a function of what is the level of activity of these facilities, and then its relationship to the surrounding environment and other airports that might exist in those facilities, national defense, and so forth. I think that it's fair to say that the analysis did, for example, consider questions. Does the tower close at night?

Therefore, that tells us there are specific operating procedures for that airport to operate in a non-towered capacity. And we can provide you all of that information.

Senator MORAN. That's interesting to me, and I hadn't thought of that point. But it's interesting to me that there was no analysis that would say that perhaps it's safer if we had air traffic control towers operating 24 hours a day. You reached the conclusion that it was safe because they weren't operating certain hours of the day. But there's also an analysis that could show that they could be valuable in improving safety if they were operating more hours.

Mr. HUERTA. Senator Moran, as I said in response to your earlier question, what changes when an airport operates in a non-towered capacity is how it operates.

Senator MORAN. And, again, I don't mean to be redundant, but you will provide that information to the subcommittee and you will let us know how much time it takes to get it to us?

Mr. HUERTA. Yes, sir.

Senator MORAN. Thank you very much. You may be aware of my effort on the Senate floor with Senator Blumenthal and nearly 30 of my colleagues, Republicans and Democrats, to try to alleviate this problem by shifting some funding within the debate of the continuing resolution from unobligated balances in research and facilities accounts. Did you oppose that effort to transfer or to change those monies from being spent in the unobligated accounts and facilities manner to providing money for control towers?

Mr. HUERTA. I think it was quite clear that the administration's position was that we were looking for a global resolution to the sequester issue. As it relates to our ability to deal with the impacts of the sequester, as you know, it's a blunt instrument, and we are implementing the law as it has been enacted. Should different laws be enacted, we will implement them.

Senator MORAN. You know, that standard was not applied uniformly during the continuing resolution debate, and I don't expect

you to have an answer for why that would be the case. I visited, as you may know, with Secretary LaHood, who told me that he would like to be helpful in the cause, but indicated the administration opposed my amendment.

His explanation was that the administration wanted to have a—different than what you just said, but what he indicated was the administration does not want to solve this problem on a short-term basis. I should tell you that I didn't vote for sequestration. I think across-the-board cuts are irresponsible. I'm not defending sequestration. I am criticizing the manner in which you're implementing sequestration, because I don't think it's required under the circumstances.

SEQUESTRATION

But, again, I share the view, I suppose, of the administration that sequestration is not a manner by which we should find savings. Having said that, Secretary LaHood said the administration opposes my amendment because it is not a long-term solution to the problem. Everything, Administrator, within the continuing resolution was a short-term solution. It's a continuing resolution that gets us through until September 30.

I couldn't find a single Senator, Republican or Democrat, who opposed the amendment. All of them spoke to me in favor of the amendment, could not understand why we couldn't transfer money that was unobligated and unused to a higher priority. And so it is still confusing to me, even with your answer.

I can't solve in the continuing resolution the issue of sequestration. I'm interested in solving the issue of sequestration, but it looks to me like you would allow us to help you at the FAA solve a problem in a way that is less damaging to the traveling public. So I remain confused by the suggestion that we want to solve a longer-term problem with sequestration. So do I.

But it does seem odd to me and it seems inappropriate to me that you're unwilling to solve a problem that you're presented with, one problem at a time as they come up. Unfortunately, that's the circumstance in which we find ourselves. You're not interested in solving this problem until we solve the larger problem?

Mr. HUERTA. Well, Senator Moran, these are all not optimal decisions. I've said repeatedly that these are all very difficult choices. Every dollar that I am unable to save through the Federal contract tower program is a dollar that I need to find in employee furloughs. And there's a tension and a tradeoff between lower activity facilities, higher activity facilities. This is an extremely difficult statute to implement, but it is the law and we're forced to implement it.

Senator MORAN. And let me make sure that I understand that answer, which is you do have the discretion to decide where the cuts would occur, because you're choosing to cut the control tower program and perhaps not furloughing air traffic controllers at more high volume airports. So the suggestion that has been made—I don't know if by you or not—that we have no choice—it is a choice, but it's a choice that you describe as difficult, but you made a choice. Is that true?

Mr. HUERTA. Well, the choice that we made is to minimize impact on the maximum number of travelers. I'd like to share with

you a specific example. Many of these smaller facilities have very low activity of all flights. So if I'm looking at the tradeoff between closing a tower which can operate safely where the maximum number of commercial activity flights might be, say, two or three a day versus affecting the arrival rate at a large facility, I'm going to err on the side of ensuring that I protect the maximum number of travelers.

Senator MORAN. Administrator, that's exactly what I would want you to do. And what's disturbing to me is the continual suggestion that we don't have the discretion to do that. What you're saying to me is exactly what I've been saying on this issue, which is why can't we prioritize? You prioritized. You decided that this is more important for safety than this. Why isn't spending money on control towers more important than unobligated balances?

Mr. HUERTA. Because the unobligated balances are in a different funding source which I am not permitted to transfer money from.

Senator MORAN. But I was giving you the authority to do that.

Mr. HUERTA. But it's authority that I don't have.

Senator MORAN. But you opposed me giving you the authority to do that. It doesn't make sense to me. I'm still baffled by this. Mr. Administrator, it does seem to me that you have indicated there was discretion, or, at least, you have the opportunity to prioritize. You have the discretion because you've now decided to keep some towers open or keep towers open for another couple of months, and you added some towers back to the list that wouldn't be closed.

So it does seem that there's some opportunity for you to utilize that discretion, and I wish you would support us giving you the opportunity to have more discretion. One of the things that caught my attention, and I assume that you said this. It comes from a newspaper in Frederick, Maryland. And you were quoted at the time when the stimulus dollars were made available, \$5.3 million at Frederick, Maryland, for an air traffic control tower.

This was just a few years ago, and I read the article that said that by the time the air traffic control tower was open for business, you made the decision to close the tower. But back during sequestration, this is what you reported as saying in the local newspaper.

"More than 300 aircraft are based at the airport. It has two runways and handles 130,000 aircraft operations annually, Huerta said. It is estimated that the number will increase to 165,000 by 2025. Huerta had to almost shout above the noise to say he came to make the case that the airport is so busy that it needs a tower." Quoting you, "I think the case has been made, Huerta said. This has become a very busy airport," and yet it's one that is being closed.

Mr. HUERTA. And its current rate of activity is less than 150,000 operations. As I've said, these are difficult choices.

Senator MORAN. Madam Chairman, I was asked by Senator Blunt to ask a question in a different vein, although it's along the same topic. Our colleague, Senator Blunt, has introduced a bill earlier this week that would ensure that essential employees upon whom public safety depends can continue to work without furlough.

During a Senate Commerce Committee hearing earlier this week, you asked for the opportunity to review the bill. And Senator Blunt

asked me to ask you if you had reviewed the bill and now had an opinion.

Mr. HUERTA. We have reviewed the bill. The administration has not taken a position on it at this point.

Senator MORAN. I think, Madam Chairman, that's all I have.

COST-SAVINGS

Senator COLLINS. Thank you very much, Senator Moran. I want to recognize your very strong leadership on the contract tower issue. This is an issue that is of great concern to many of our colleagues on both sides of the aisle. And I personally believe that had you been able to get a vote on the Senate floor that you would have won overwhelmingly.

Mr. Attorney General—Inspector General—maybe you'd like to be Attorney General—maybe not.

In your statement, you talked about that the FAA could realize cost savings through improved controller productivity and scheduling. And you talk about that since 2000, total air traffic operations have declined by 23 percent while the number of air traffic controllers has actually increased. I mention this because I think the furloughs are a very blunt and harmful instrument that does not set priorities.

But it seems to me that in your excellent testimony and the audits and reports that you've done that you've suggested other ways that savings could be achieved and that the targets under sequestration could be met. So could you talk to us a little bit more about your comment that FAA could realize cost savings with better scheduling and higher productivity?

Mr. SCOVEL. Yes. Thank you, Senator Collins. It is true that air traffic operations since 2000 have decreased about 23 percent with slightly more controllers on duty today than there were then. We've been asked by the House to undertake a review of air traffic controller productivity, and that review is underway, and we don't have conclusions yet that I can share with you.

However, what we have identified through a number of audits of FAA's air traffic controller scheduling practices as well as training is that there are a number of towers—and that's been the subject of discussion off and on between Senator Moran and the Administrator—but a number of towers that maintain at least two air traffic controllers on duty through the nighttime hours when, by virtue of FAA's own threshold requirements in terms of operations, those towers should be closed.

CONTROLLER TRAINING AND SAFETY

There are opportunities for savings if FAA were to apply its own thresholds to those particular towers and leave those towers unmanned during the nighttime hours. We defer to the agency in terms of the safety question, and we are very cognizant of Senator Moran's concern with safety as well as the testimony of the NTSB chairman on Tuesday, in which she offered the view that redundant safety systems, safety layers, can only enhance safety rather than decrease it.

Senator COLLINS. Well, I think part of that also was in response to the very unfortunate incidents where the air traffic controller had fallen asleep during the nighttime shift——

Mr. SCOVEL. Exactly.

Senator COLLINS [continuing]. Which is obviously unacceptable. I'm not sure the answer is to have a second person there to wake the person up. But I do think that that's probably why two are on duty.

Mr. SCOVEL. It is in some instances as a result of the concern over fatigued controllers from several years ago. A decision was made by the agency and, in fact, the Department to put a second controller on duty at those locations, notwithstanding the fact that nighttime operations were below the threshold that had been specified by FAA for manning the tower in the first place.

SEQUESTRATION

Senator COLLINS. The reason I mention this issue, Administrator, is that I would encourage you to go back and really scrutinize your budget—I'm not saying that you haven't—but to look at the contract towers issue, the post midnight issue, particularly when you're dealing, as we are in Bangor, with a dual use airport that has military operations as well as civilian, and to also take a look at the furlough issue. I'm worried about the impact on morale. I'm worried about the impact on operations.

I've met just in the last couple of weeks with high-level Navy officials and National Guard officials, and they have both been able to work through this in a way that has either greatly lessened the number of furlough days that will be required by DOD's civilian employees within their departments or eliminated altogether. And the disturbing thing is I'm also hearing that the White House is putting pressure on the Navy, the Coast Guard, and the National Guard to do furloughs anyway. I don't think we ought to be trying to enhance the pain of sequestration.

I agree that sequestration was a terrible policy. It doesn't set priorities. It treats programs as if they're of equal worth, and it is a very poor way to legislate. But here we are, and it seems to me that we've got to work together to try to figure out ways to minimize the impact on operations and on the workforce.

I personally believe we're going to end up paying more later in a lot of these cases as we delay contracts and cause problems in the supply chain and take other actions as a result of sequestration. So I would encourage you to go back and take another really close look at your budget.

FURLOUGHES

Mr. HUERTA. Senator Collins, I can't speak to what's going on in other agencies, but I will give you my assurance that we are in a continuous evaluation of where we can achieve cost savings. I will say that when we first began our initial planning, we actually thought that we were going to have a much larger number of furlough days. And through our very aggressive efforts to reduce spending in other areas, we're able to get that down to the 11 that we're currently working with, and we will continue to work on that.

I have with my staff weekly reports on how we're doing with contract expenditures, what we're seeing with respect to our actual performance. This is something that we will continue to manage throughout the fiscal year as long as the sequester is in place.

As you know, and as I've said repeatedly, these are difficult choices, and we're forced to choose between very unattractive options. But nothing would be better news for me than a situation where we would be able to relax these draconian measures. But it all depends on how the financial performance plays out in the weeks ahead.

ELECTRONIC DEVICES ON PLANES

Senator COLLINS. Let me just ask two final questions. One, Administrator, what progress has the FAA made in reviewing airline procedures governing the use of portable electronic devices such as smart phones and tablet computers in flight? It's not that I'm seeking being on a flight where everybody's on a phone having a conversation. But, obviously, there's a great deal of interest in being able to use devices on these flights and a great deal of skepticism, I would say, among the traveling public about whether this really is a safety issue.

Mr. HUERTA. Sure. Let me draw the distinction between the use of phones and the use of other electronic devices.

Senator COLLINS. Yes, a valid distinction.

Mr. HUERTA. The use of phones is regulated by the Federal Communications Commission (FCC), and right now their current rules prohibit the use of phones on aircraft in flight. The FAA, for other electronic devices, recently committed at the start of this year an Aviation Rulemaking Committee (ARC) to advise us on whether we should revise the regulations that we currently have in place that restrict the use of these devices during critical phases of flight.

This rulemaking committee is made up of representatives not only of the device manufacturers, but also representatives of crews, and of aircraft operators. These members will have the full scope of perspectives that would come into play as we consider how to look at these things, as well as the research and technology community so that we can really understand what the challenges are with respect to electronic performance.

Current law provides that any airline could do an analysis of devices on their aircraft, and if they determine there is no interference, then they could be allowed. We recognize, though, that there has been an explosive growth in the type and variety of electronic devices. So it was for this reason that I made it a personal initiative to really try to convene this group to consider what a way forward would look like.

We're expecting the work of the ARC to be concluded this summer, and at that time they will make recommendations to us on what a way forward might look like. The balance they have to achieve is what's technologically feasible, but also what can be enforced in an operational context by crews and operators of airlines.

Senator COLLINS. Thank you.

AUDIT OF LOS ANGELES INTERNATIONAL AIRPORT

And, finally, Mr. Scovel, I know that the inspector general's office is conducting an audit of the Los Angeles International Airport's (LAX) revenue use as a result of a particular incident where revenue was diverted for purposes not allowed under the law. Two questions: What is the status of that audit? And, second, has your office uncovered revenue diversion incidents—that's a bureaucratic term for it—at other airports throughout the country, in other words, misuse of revenues?

Mr. SCOVEL. Senator Collins, our review of supposed revenue diversion at Los Angeles International Airport is underway. We haven't completed it yet. So I'm not in a position to speak specifically to that, except to note that we are conducting that review in response to a request from three Members of the House.

We have also received information independently through third party sources affiliated with LAX. Some of those allegations we referred to FAA for their review, and they have conducted that. And my staff together with FAA is in the process of reviewing those conclusions. But the larger piece has fallen to one of our audit groups, and that effort is still underway.

AUDITS OF REVENUE DIVERSIONS

To your other question, the nature of revenue diversion at airports nationwide, unfortunately, it is—I can only call it pernicious and persistent. It is required by Federal law that revenues generated by airports be used for airport purposes. To use it for anything else, such as police or fire services off the airport, as we have found happened—the parking fees generated in lots and garages on the airport to be used for off-airport services—we have found numerous instances of that.

Both my office and Administrator Huerta's agency have groups that have long experience in investigating and attempting to resolve instances of revenue diversion. His group as well as mine are tremendously under-resourced. We could probably dedicate double figure FDEs nationwide to try to track all of this down.

I can give you a very short list—and I won't take too much of your time—but just some of the more recent projects that we've had underway. Dating back to 2003, we looked at incidents at Pittsburgh, Cleveland, San Antonio, Miami, Detroit; 2004, San Francisco; 2005, Bellingham, Charlotte, Cincinnati, Detroit, Las Vegas, Reno, Tucson; 2006, Orlando; 2011, Denver; 2011, Venice, and most recently, Los Angeles.

Over the course of the last 10 years, our office alone has identified well in excess of \$400 million of revenue diversion or lost revenues. For instance, airport real estate sold for less than fair market value. That's money that, had the sale been conducted properly, should have been devoted to airport purposes under Federal law. But all of that happened.

That's not to say that those revenues, in some instances, could ever be recovered either by the agency or by the airport. But, in some instances, they can, and we and FAA try to track those instances down.

Senator COLLINS. Well, that's a very disturbing list of airports, because that suggests a widespread problem and with real money, hundreds of millions of dollars. That's the sort of thing we have to make sure we're providing enough resources for on the investigative front so that we can catch and deter that kind of activity.

Senator Moran, do you have anything further?

Senator MORAN. No. Thank you for the indulgence.

Senator COLLINS. Thank you.

I want to thank both of our witnesses for testifying today.

And, Administrator, I particularly want to recognize your first appearance before our subcommittee.

ADDITIONAL COMMITTEE QUESTIONS

I would announce that we will leave the hearing record open for 1 week for any additional questions for the record and would ask our witnesses to respond to those as quickly as possible.

[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

NEXTGEN MASTER SCHEDULE

Question. I continue to be concerned by the Federal Aviation Administration's (FAA's) track record with capital programs. Too many FAA programs go over budget, exceed their schedule, and do not deliver on all of their promises. This past year, the FAA proposed changes with the goal of improving program management. I was happy to approve FAA's reorganization that created the Program Management Office (PMO), which is designed to focus the agency on good management practices. Mr. Scovel, in your testimony, you discuss the need for FAA to integrate all of its Next Generation Air Transportation System (NextGen) programs. One year ago, the FAA concurred with your recommendation that it produce an integrated master schedule. By what date will the FAA produce this master schedule?

Answer. Consistent with Mr. Scovel's recommendation, the FAA is developing an Integrated Master Schedule (IMS). The NextGen IMS will track progress activities and milestones monthly for the pre-implementation and implementation programs.

By December 2013, the FAA IMS will include the linkages and dependencies among NextGen programs. This capability will strengthen program synchronization and alignments along with capturing the timeline for maturity of the NextGen programs. Further, we will continue to enhance the IMS as we revalidate the NextGen schedules and definitions of capabilities. In parallel, we will continue our effort to align the IMS with the NAS Enterprise Architecture (EA). This alignment will include all implementation activities through 2020.

ACQUISITIONS WORKFORCE

Question. The Inspector General has issued many recommendations on the importance of having an FAA workforce with expertise in acquisitions. This kind of expertise means hiring the right people and giving them the training they need. How will sequestration affect your ability to support the PMO and develop a strong acquisitions workforce?

Answer. The Federal Aviation Administration (FAA) continues to prioritize training and certification for the FAA's acquisition workforce. The agency views it as a necessary investment to ensure the FAA has a strong cadre of skilled acquisition professionals in order to effectively manage cost, schedule, and performance of agency acquisitions and contracts. The FAA has reduced training and travel budgets but is still supporting core training that is required for certification of contracting officers and specialists, contracting officer representatives, and program/project managers. The FAA is also continuing to offer core training to other acquisition specialists, such as system engineers, test and evaluation specialists, cost estimators, and integrated logistics specialists. However, reduced travel budgets are impacting the ability of some field personnel to attend training; local training is not available or there is an insufficient population to bring training onsite. Additionally, diminishing

staffing levels and support contractor resources are impacting the availability of personnel to attend training due to increasing job demands.

While the FAA remains committed to strengthening the skillsets of onboard acquisition staff, sequestration is impacting the FAA's ability to hire. The FAA has had to impose restrictions that broadly curtail hiring, including backfill hiring and career ladder promotions. While there are provisions for exceptions for critical needs, the expectation is that these will be very limited. Similarly, there is a general freeze on reassignment increases, performance awards, and retention incentives. A consequence of these restrictions is difficulty retaining staff. Experienced acquisition professionals are in high demand and FAA is beginning to see an increase in attrition. Losing highly skilled and experienced professionals, and staff managing increasingly complex acquisitions, erodes morale and puts the agency at risk for increased costs, disruptions, and delays. In addition to a shortage of senior, experienced professionals, a thinning pipeline of talent can have long term impacts.

To manage under these circumstances, the FAA is focused on developing current, available staff to best meet highest priority needs and strategies to retain personnel and organizational knowledge/expertise.

The FAA's Acquisition Workforce Council oversees planning and development of the acquisition workforce. The Council is in the process of updating FAA's Acquisition Workforce Plan. Through this process the FAA will reassess current and projected workload and staffing (including retirement and attrition data) and strategies to address requirements based on assumptions and constraints. The Acquisition Workforce Plan update is expected to be published in September 2013.

RUNWAY STATUS LIGHTS

Question. Recently, the FAA has recognized cost increases with the Runway Status Lights program. And I understand that the FAA may consider installing these lights at fewer locations in order to keep within the programs budget. What is the FAA doing to ensure that it delivers on all of the promises of the Runway Status Lights program? Under what circumstances would the agency decide to cut back on this program instead of making other adjustments to its budget?

Answer. Runway Status Lights (RWSL) is a costly system because it involves cutting into runways and taxiways in order to install the field lighting system. In addition, the FAA must rely on the airport to make the runways and taxiways available for suitable lengths of time so that construction costs don't become unwieldy.

At the time of the RWSL Final Investment Decision (FID) in January 2010, based on the economic analysis, only 13 airports provided a positive net present value; however, 23 airports were selected based on the cumulative program net present value. Moving forward, FAA is focusing on getting positive net present value for each airport installation both for this program and other capital investments.

In the time since the FID, the program experienced cost growth due to:

- changes in construction methods to costlier techniques;
- requests for additional light arrays;
- limited runway and taxiway availability; and
- additional development for supportability enhancements.

Cost containment measures were taken to address the cost growth and an affordability analysis was initiated. The affordability analysis included implementation progress to date, funds spent to date, life cycle costs, and the benefit cost ratio.

Taking into account all the relevant factors, the agency is considering a two-step approach to complete the deployment of RWSL. First, execute a plan to achieve operational status at the appropriate number of airports based on the affordability constraints and approved by the FAA Joint Resources Council. Second, develop a business case to address the remaining airports.

Employing good business practices, the approach forward for the remaining airports will take advantage of all methods of reducing runway incursions targeted at the specific airport environment. The agency is institutionalizing a new process that will be inclusive of airport partners to develop a comprehensive plan that will include a combination of innovative non-technology and technology solutions tailored for each airport environment. In order to achieve this tailored approach, the FAA has chartered a Surface Safety Team to, along with stakeholders:

- Evaluate the current set of surface technologies and risk assessment capabilities;
- Conduct additional risk analysis based on additional information available through voluntary reporting systems and Aviation Safety Information Analysis and Sharing (ASIAS);
- Develop portfolios of solutions to address identified causal factors; and,

—Identify funding solutions, including conditions for PFC and Grant eligibility, and cost sharing opportunities.

This Surface Safety Team began its work in February and is expected to complete its work by December 2013.

787/AIRCRAFT CERTIFICATION

Question. Given the size of the aviation industry in the United States, it is not possible for FAA employees to personally oversee everything that happens in the industry every day. To make the best use of its resources, the FAA has been moving to a risk-based approach. The agency has also taken advantage of employees who work in the aviation industry, but perform oversight work on behalf of the FAA. As part of its investigation into recent events with lithium batteries on the 787, the FAA has reviewed its own oversight of aircraft certification. What lessons has FAA learned from this review?

Answer. As part of our certification processes, the FAA determines its level of involvement in a given aspect of the design based on a number of risk-based factors, including the safety criticality of the design feature, the clarity of the requirements and guidance, and the experience/competency level of the applicant and their delegation system. Our level of involvement is not an “all-or-nothing” proposition. Rather, we fine tune our participation to match the specific situation. In the case of the 787 lithium batteries, our experienced electrical engineers maintained a high level of involvement, even in those cases where the formal test witnessing and documentation sign-off was delegated to the Boeing organization. Overall, we believe our certification processes are sound and effective in supporting our safety objectives.

There are two on-going 787 related activities we are involved with: National Transportation Safety Board (NTSB) investigation of the in-service battery events; and 787 Special Review Team which is conducting a comprehensive review of the Boeing 787 critical systems, including design, manufacture, assembly and coordination activities between Boeing and 787 suppliers.

We will carefully evaluate any recommendations from these activities with regard to further improvements to our overall certification processes and oversight methods.

AIRCRAFT CERTIFICATION

Question. The aviation industry continues to grow and innovate. The FAA’s highest priority must always be safety, but its oversight still has to keep up with industry—making sure that new products meet the same standards for safety, but not at the expense of unreasonable delay.

What is the average time today to review and approve new proposals? Has this time increased or decreased in recent years?

Answer. Certification projects involve multiple milestones spanning the time period from initial proposal through FAA approval. The duration of each project is unique, with some being as short as one week and others spanning 6–8 years.

One area that has been a challenge for FAA has been the ability to take on numerous new projects. Since 2005, the FAA Aircraft Certification Service has used a process to prioritize the initiation of projects based on a number of considerations including the safety significance of the project, scope of the project and degree of FAA involvement.

Section 312 of the FAA Modernization and Reform Act of 2012 identified six areas for assessment and improvement. The FAA developed an implementation plan consisting of 14 initiatives to address the six areas. One of the initiatives seeks to improve the process and timeliness to initiate certification projects. The FAA developed the new process based on industry comments that better balances industry needs with FAA priorities and resources. The new process has been posted on the FAA Web site and the public comment period is open through July 2, 2013. Several industry representatives and associations have expressed favorable comments regarding the new process based on their initial review.

Question. Given what you have learned with the 787, how do you see the FAA continuing to improve aircraft certification?

Answer. While we believe our certification processes are effective in supporting our safety mission, we are always looking for ways to improve them. For that purpose, we plan to use the recommendations and lessons learned that will come from NTSB’s investigation of the 787 battery and the 787 Special Review Team.

We believe any recommendations that come from these activities will strengthen the work that has been underway for several years within the Aircraft Certification Service to build a stronger, system-based approach to our certification, continued

operational safety, and oversight processes. These efforts fully support the FAA commitment to develop and implement an overall Safety Management System.

Question. The FAA Modernization and Reform Act of 2012 required the FAA to assess its certification process and report on the FAA's recommendations. That report was due 180 days after enactment. What is the status of this effort?

Answer. The Aircraft Certification Process Review and Reform (ACPRR) Aviation Rulemaking Committee (ARC) submitted the following recommendations to the Director of Aircraft Certification on May 22, 2012:

1. Development of Comprehensive Means To Implement and Measure the Effectiveness of Implementation and Benefits of Certification Process Improvements;
2. Enhanced Use of Delegation;
3. Integrated Roadmap and Vision for Certification Process Reforms;
4. Update Part 21 To Reflect a Systems Approach for Safety;
5. Culture and Change Management; and
6. Process Reforms and Efficiencies Needed for Other Aircraft Certification Service (AIR) Functions.

Recommendations from the ARC were included in a report provided to Congress on August 13, 2012. The FAA fully supports these recommendations and developed a comprehensive implementation plan consisting of 14 initiatives addressing each item. Implementation actions began in 2012, in advance of the act requirement to begin implementation no later than February 14, 2013.

Question. Will you be able to make these improvements in time to develop the fiscal year 2015 budget request? Or even the fiscal year 2016 budget request?

Answer. The fiscal year 2015 budget request will use existing model formulas to forecast resource requirements. As we improve and revise the model for these labor challenges, these will be incorporated in the fiscal year 2016 request.

For fiscal year 2016, the Flight Standards portion of the model will incorporate improvements that will provide more accurate staffing forecasts. The Aircraft Certification Service portion of the model does not require algorithm revisions for staffing forecast. Aviation Safety (AVS) will use December 2012 and 2013 Flight Standards Service (AFS) Staffing Tool and Reporting System (ASTARS) model data results to formulate our fiscal year 2015 and 2016 budget requests respectively.

PERFORMANCE-BASED NAVIGATION

For the past couple of years, the FAA has been working on its metroplex initiative. This initiative brings teams of FAA employees to major airports across the country to work with local stakeholders and develop better procedures. These procedures rely on performance-based navigation, which means that each and every aircraft must be equipped with the right technology. Some of these avionics are more advanced and can take advantage of more precise procedures. The FAA has been developing these procedures for a long time, but with the metroplex initiative, the FAA has finally shown that it is placing a priority on procedures that will be used after these teams leave the airport. A key element of NextGen has been the idea that the best equipped aircraft will be able to take advantage of the best procedures. But to ensure that procedures are being used, they need to be accessible to the largest number of aircraft.

Question. Can the FAA develop procedures that will be used on a regular basis and also follow a policy of "best equipped-best served"?

Answer. The Federal Aviation Administration (FAA) has developed, published, and maintained over 20,812 conventional and Area Navigation (RNAV) Standard Instrument Approach Procedures (i.e., ILS/VOR/RNAV/RNP AR/WAAS/GLS), Standard Instrument Departures and Standard Terminal Arrivals, and 1,193 low and high altitude routes (i.e., Victor Airways, Jet Routes, Q, T, and TK) for use by users (i.e., airlines, business, general aviation, Department of Defense (DOD)) of the National Airspace System (NAS).

These public procedures are available for use by all entities identified above, provided that aircraft are properly equipped and maintained, the aircrew is properly trained and certified, and the flight operations to be performed are authorized and conducted in accordance with various FAA directives and other documents, as appropriate.

While these procedures are not segregated or developed in a manner that follows a policy of "best equipped-best served" per se, aircraft and aircrews that meet the aforementioned criteria can certainly take advantage of operational and economic benefits provided by more advanced Performance Based Navigation routes and procedures. This promotes the drive for greater investment in upgrades to flight planning capability, equipment and training on the user side, as the FAA continues to modernize the NAS through its efforts under NextGen.

Question. Two years ago, FAA data showed a dramatic increase in operational errors made by its air traffic controllers. That year, the FAA had also been making changes in how such errors were reported, so FAA has never been able to determine how many of those errors were due to better data collection and how many were due to an actual increase in controller errors. But even today, the FAA has not been able to establish a new baseline that it can use to measure any improvement in its performance. When will the FAA be able to establish a baseline for operational errors?

Answer. As a result of FAA improvements in reporting and monitoring systems during the last 2-plus years, the agency has indeed experienced a significant increase in the number of reported operational incidents. While the FAA cannot prove with 100 percent certainty that the entire increase in reporting is related to improvements in policy, procedures, and tools, those increases occurred concurrent to the deployment of those improvements and the likelihood of the associated increases is statistically high.

Those new capabilities were implemented methodically throughout the National Airspace System beginning on January 30, 2012, and we are nearly finished with the implementation of all planned improvements. For example, the implementation of electronic radar monitoring in the terminal environment via the Traffic Analysis and Reporting Program (TARP) was rolled out from January to September 2012. The last program to be implemented is TARP for en route facilities which we began deploying in May 2013, and expect to be fully implemented by September 2013.

Best practices for performance measurement typically use 2 full years of good data to establish a new baseline; meaning that the FAA will have a new official baseline for Operational Incidents in October 2015. However, by October 2014, the FAA expects to have 1 full year of full reporting and will establish new goals for the current System Risk Event Rate (SRER) metric.

As part of its strategy to move beyond traditional reporting of one dimensional safety metrics, in 2011, the FAA introduced a new metric: the System Risk Event Rate (SRER). The SRER represents a move away from legacy safety indicators consisting of merely counting losses of separation and a move toward a metric that illuminates, with far greater precision, the frequency and rate of high-risk events across the NAS. The SRER is a 12-month rolling rate that compares the number of high-risk Risk Analysis Events (RAEs) with the total number of validated losses of standard separation that have occurred. As expected, the vast increase in reported safety data in 2012 has resulted in an increase in the overall number of events and RAEs reported. However, it is notable that even with a significantly greater number of recorded events and a higher number of reported RAEs, the total number of high-risk events has remained low.

RETENTION BONUSES

Question. Please provide a table for fiscal year 2012, and another for fiscal year 2013, listing the title, office, and salary of each FAA employee that received a retention bonus during that year, as well as the amount of the retention bonus itself.

Answer.

FISCAL YEAR 2012 RETENTION INCENTIVES—FAA

Organization	Position title	Salary	Retention per- cent	Retention amount
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	\$85,356	10	¹ \$8,536
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	84,006	10	¹ 8,401
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	86,037	10	¹ 8,604
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	106,684	10	¹ 10,668
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	67,780	10	¹ 6,778
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	85,356	10	¹ 8,536
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	85,788	10	¹ 8,579
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	42,319	10	¹ 4,232
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC ²	43,589	10	¹ 4,359
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AVIATION ASSISTANT	43,102	10	¹ 4,310
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	84,006	10	¹ 8,401
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627

FISCAL YEAR 2012 RETENTION INCENTIVES—FAA—Continued

Organization	Position title	Salary	Retention per- cent	Retention amount
ATCT NANTUCKET, MA	SUPV AIR TRAFFIC CONTROL SPEC.	119,972	10	¹ 11,997
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	89,879	10	¹ 8,988
ATCT PORTLAND, ME	AIR TRAFFIC CONTROL SPEC ²	89,879	20	17,976
HQ-AIR TRAFFIC ORG WASHINGTON, DC	DEPUTY CHIEF OPERATING OFFICER ³ .	179,700	24.38	42,500
HQ-HUMAN RESOURCE MGT WASHINGTON, DC.	SUPV HUMAN RESOURCES SPEC	161,736	25	40,434
SSC NANTUCKET, MA	AIRWAY TRANSP SYS SPEC	103,830	20	¹ 20,766
SSC NANTUCKET, MA	AIRWAY TRANSP SYS SPEC	79,026	20	¹ 15,805
HQ-HUMAN RESOURCE MGT WASHINGTON, DC.	MGT & PROG ANALYST	141,735	.....	⁴

¹ Denotes continuation of a group incentive authorized to supplement the pay of employees at an extraordinarily high cost location (Nantucket Island) that is included in the "Rest of U.S." locality pay area.

² Denotes the same employee as row directly above this one—location changed or modified agreement.

³ Retired 9/30/12.

⁴ Denotes an incentive that was stopped upon expiration or review showing incentive no longer needed.

FISCAL YEAR 2013 RETENTION INCENTIVES—FAA

Organization	Position title	Salary	Retention per- cent	Retention amount
ATCT NANTUCKET, MA	SUPV AIR TRAFFIC CONTROL SPEC.	\$90,478	10	¹ \$9,048
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	84,006	10	¹ 8,401
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC ²	76,267	.....	¹ 3
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	86,037	10	¹ 8,604
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	106,684	10	¹ 10,668
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	20,324	10	¹ 2,032
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	85,356	10	¹ 8,536
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	85,788	10	¹ 8,579
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	67,780	10	¹ 6,778
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	MGT & PROGRAM ASSISTANT	46,550	10	¹ 4,655
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	84,006	10	¹ 8,401
ATCT NANTUCKET, MA	AIR TRAFFIC CONTROL SPEC	76,267	10	¹ 7,627
ATCT NANTUCKET, MA	SUPV AIR TRAFFIC CONTROL SPEC.	119,972	10	¹ 11,997
SSC NANTUCKET, MA	AIRWAY TRANSP SYS SPEC	103,830	20	¹ 20,766
SSC NANTUCKET, MA	AIRWAY TRANSP SYS SPEC	79,026	20	¹ 15,805
ATCT PROVIDENCE, RI	AIR TRAFFIC CONTROL SPEC	83,375	.....	³
TRACON CAPE, OTIS AFB, MA	AIR TRAFFIC CONTROL SPEC	87,753	.....	³
HQ-HUMAN RESOURCE MGT WASHINGTON, DC.	SUPV HUMAN RESOURCES SPEC	166,265	25	⁴ 41,566

¹ Denotes continuation of a group incentive authorized to supplement the pay of employees at an extraordinarily high cost location (Nantucket Island) that is included in the "Rest of U.S." locality pay area.

² Denotes the same employee as row directly above this one—location changed or modified agreement.

³ Denotes an incentive that was stopped upon expiration or review showing incentive no longer needed.

⁴ Retention payments terminated 6/3/13.

Question. Please describe the FAA's process for approving retention bonuses.

Answer. An employee's manager may request a Retention Incentive when the employee has unique qualifications or there is a special need for the employee's services which makes it essential to retain the employee. The employee must be likely to leave the Federal service in the absence of a retention incentive and have a performance rating of acceptable. The employee must have completed a minimum of 1 year of continuous service with FAA, immediately prior to receiving the incentive, or have been employed by FAA for a period established under a service agreement resulting from the payment of a recruitment or relocation incentive, whichever is longer.

The requesting office must complete an Authorization Request form. The form has the employee's position information, salary, requested amount, and other information required to process the incentive request. It also includes sections for narrative justification that are designed to present the business reasons for the incentive and to address the various factors prescribed by the Department of Transportation policy, Departmental Personnel Manual (DPM), chapter 575, Recruitment, Relocation, and Retention Incentives. Finally, the form has a concurrence/approval section with signature blocks to facilitate the review and approval process.

Along with the form, any supporting documentation that may be necessary to support the request is added to the package. This may include the employee's latest performance assessment, documentation of an outside job offer, or documentation of any other expression of the employee's intention to leave Federal service absent an incentive. The package will also usually include an FAA Retention Incentive Service Agreement that outlines the conditions that the employee must agree to while receiving the incentive, such as the payment method, agreement termination and repayment liability rules, and specific performance objectives that the Line of Business or Staff Office (LOB/SO) has identified to be achieved or maintained in exchange for the retention incentive.

Requests are initiated by the employee's manager and forwarded through channels to the head of the employee's LOB/SO within the FAA. If the Head of the LOB/SO concurs, the request is forwarded for review by the servicing Human Resource Management Office to validate any staffing information outlined in the request and to ensure compliance with FAA policy. The request is then presented to the Assistant Administrator for Human Resource Management for concurrence.

The FAA administrator considers the request as the Reviewing Official. Only requests approved by the FAA administrator are forwarded to the Department of Transportation, Office of the Secretary for consideration. At the Department, the request first goes to the Departmental Office of Human Resource Management (DOHRM) for technical review to ensure it meets the requirements outlined in DPM-575 and FAA policy. The DOHRM office forwards each request to the Assistant Secretary for Administration for consideration. When the requested incentive amount is 25 percent or less of the employee's basic salary rate times the number of years required by the service agreement, the Assistant Secretary for Administration makes the final decision and serves as the Approving Official. If the amount requested exceeds that 25 percent amount, the request must be forwarded to the Deputy Secretary of Transportation for decision as the Final Approving Official.

The DOHRM notifies the FAA's Assistant Administrator for Human Resource Management of the final decision.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

UNMANNED AIRCRAFT SYSTEMS

Question. Under the 2012 Federal Aviation Administration (FAA) Modernization and Reform Act, the FAA is directed to develop a "comprehensive plan" to integrate unmanned aircraft into the national airspace. The law sets a deadline for the integration of "civil" drones—those in private hands—by "no later than September 30, 2015." It also instructs the FAA to integrate "public" drones—those in Government hands—on an expedited basis.

I believe the integration of drone technology poses serious privacy risks—especially the danger of unwanted surveillance of the individual.

Will you assure this subcommittee that the FAA will work with other appropriate agencies and Congress to establish rules protecting Americans' privacy before drones are integrated into the national airspace?

Answer. The FAA engaged our interagency partners (including the National Aeronautics and Space Administration (NASA), the Department of Defense (DOD), and the Department of Homeland Security (DHS)) and sought input in the development of the FAA proposed privacy approach for the Unmanned Aircraft Systems (UAS) test sites.

The FAA is analyzing the public input received regarding its proposed approach to include terms and conditions in the "other transaction agreement" (OTA) that would, among other things, require operators to develop privacy policies and make them publicly available. By the end of July 2013, the FAA plans to finalize the terms to include in the OTAs with the test site operators. The FAA will continue to work with appropriate agencies on the issue of privacy protection.

UNMANNED AIRCRAFT SYSTEMS TEST RANGES

Question. Under the 2012 FAA Modernization and Reform Act, the FAA is directed to select six “test ranges” for the integration of drones into the national airspace. These test ranges are supposed to help develop certification standards, air traffic requirements, and to provide for verification of the safety of unmanned aircraft before their integration into the national airspace.

What specifically does the FAA plan to test at these test ranges?

Answer. We will consider how well an applicant’s research goals align with the overarching goal of safely integrating UAS into the National Airspace System. In order to be selected as a site operator, the applicant must have a sound research plan consistent with the minimum areas identified in the FAA Modernization and Reform Act of 2012.

Question. Where will these drones fly when they are being tested? Will they be flown over populated areas?

Answer. The exact location of the test ranges will not be known until the six test sites are selected. However, the selection process takes into consideration the test site operator’s ability to assure the safety of people and property on the ground. The Screening Information Request contains nine specific safeguards to protect persons and property that must be addressed by the applicants. The FAA plans to complete the test site selection process by the end of 2013.

Question. How can we be sure that these drones will not interfere with manned aircraft traffic?

Answer. The evaluation will assess the applicant’s ability to protect the safety of manned aircraft operations in or near the test range. Only sites with sound methods for protecting the safety of manned aircraft and people and property on the ground will be selected. The sites will not be authorized to operate until the FAA evaluates and approves the safety system.

Question. I assume these test ranges will not be placed in highly populated areas—where the issues of safety and privacy would be most acute. Is that correct?

Answer. The exact location of the test ranges will not be known until the six test sites are selected. However the selection process takes into consideration the test site operator’s ability to assure the safety of people and property on the ground. The Screening Information Request contains nine specific safeguards to protect persons and property that must be addressed by the applicants.

Question. Sites all across the country, including two in California, are competing to be these “test ranges.” Press reports say there are as many as 50 applicants in 37 States. The solicitation document (“Screening Information Request”) includes a number of factors for the FAA to consider in deciding where to put these test sites. I am deeply concerned that it accords no weight to whether an applicant has a better approach to privacy. Instead, the FAA put out its own privacy document for notice and comment. This simply says that applicants will be required to have a “privacy policy,” without specifying what (if anything) that policy must contain.

Why has privacy been omitted as a factor in choosing these test ranges?

Answer. The selection criteria incorporate factors that Congress directed the FAA to consider in the FAA Modernization and Reform Act: geographic and climatic diversity, location of ground infrastructure, and research needs. In March 2012, the FAA published a request for comments in the Federal Register, and in April 2012, FAA hosted two public webinars to obtain public input on the FAA proposed selection criteria. Although there was substantial public participation, the FAA did not receive comments advocating that privacy should be used as a factor in choosing the test sites.

Subsequently, the FAA determined that it should address privacy considerations at the six test sites. The FAA elected to do so by proposing that the test sites comply with all applicable privacy laws and policy that they establish privacy policies that are informed by Fair Information Practice Principles—an approach that has been successfully applied by Government agencies in other contexts.

Question. The FAA has already amended its solicitation document—most recently on March 20. Will FAA amend the solicitation again to make sure privacy is included as a factor in choosing the test sites? If not, why not?

Answer. The FAA engaged our interagency partners (including NASA, DOD, and DHS) and sought public input in the development of the FAA proposed privacy approach for the UAS test sites.

Rather than address privacy issues in the solicitation, each selected operator will be required to enter into an Other Transaction Agreement (OTA) with the FAA, which will set out the terms and conditions under which the entity will operate the UAS Test Site. The agreement will include a requirement for each operator to publish and comply with its privacy policy as it relates to the test sites.

Question. You testified at the hearing: “we’re not in a position to make a determination of the content of the [privacy] plan, but what we would require is that [a test range] develop one, that they make it available to the public, and it is available for people to read and understand.” Thus, according to your testimony, a privacy policy could essentially be devoid of content and still qualify. Why not—perhaps in consultation with the Federal Trade Commission or privacy advocates—make sure that the privacy policies adopted by the test ranges are strong, not weak?

Answer. FAA will require the site operator to develop a privacy policy that is informed by Fair Information Practice Principles.

The FAA has required each test site operator to be a public (governmental) entity and to publicly post its privacy policy. This promotes transparency and allows local stakeholders to ensure that the public entity operating the site develops privacy policies that address local concerns. The FAA believes that a public entity will be responsive to local stakeholder concerns.

Question. You testified at the hearing: “privacy is not something Congress asked us to look at, nor is it something that the FAA has the authority to regulate.” But the portion of the 2012 FAA Modernization and Reform Act directed at unmanned aircraft clearly recognizes that unmanned aircraft have unique attributes that demand separate attention. One of those attributes is the unique privacy risks they pose. The law directs FAA to develop a “comprehensive plan to safely accelerate the integration of civil unmanned aircraft systems into the national airspace system,” which will then form the basis for final regulations. A plan that is “comprehensive” would include the paramount issue of privacy. In addition, the law lists a variety of broadly-phrased issues (mostly related to safety) that must be accounted for in the plan—but it also clearly says that these are the absolute “minimum” of what the plan must contain. It does not prevent FAA from considering the issue of privacy. Finally, the FAA’s approach to date seems inconsistent with your statement. So far, FAA has put out a privacy document for notice and comment with respect to the six test ranges. This is supposed to result in a privacy strategy incorporated into FAA’s agreement with the test ranges that are selected. Is it truly FAA’s view that it has no authority over the issue of privacy and unmanned aircraft?

Answer. The FAA has authority in 49 U.S.C. 106(l)(6) to issue the site operators an “other transaction agreement” (OTA) that will contain the legally binding terms and conditions under which the entity will operate the UAS site. That statute provides, in pertinent part:

“The Administrator is authorized to enter into and perform such . . . other transactions as may be necessary to carry out the functions of the Administrator and the Administration. The Administrator may enter into such . . . other transactions with . . . any State, territory, or possession, or political subdivision thereof . . . on such terms and conditions as the Administrator may consider appropriate.”

Due to the concerns relating to privacy at the test sites, the FAA has proposed including terms in each OTA that will require site operators to establish a privacy policy.

Although the authority in 49 U.S.C. 106(l)(6) allows the FAA to set the terms under which the test sites will operate, it does not authorize the FAA to establish privacy policy for manned or unmanned aircraft operations generally.

UNMANNED AIRCRAFT SYSTEMS AIRWORTHINESS CERTIFICATES

Question. There are many FAA regulations that apply to private aircraft, which are called “civil aircraft” under FAA regulations. These regulations include the requirement that a civil aircraft be certified as airworthy, as well as the requirement that a civil aircraft be operated by a licensed airman. However, a great many of these regulations do not apply to “public aircraft”—meaning those operated by government agencies like a local police or fire department. Thus, FAA regulation of police and other public aircraft generally is quite limited. For example, as I understand it, public aircraft are not required to have FAA airworthiness certificates, and those who fly them are not required to have FAA airman certificates. This regulatory approach is especially problematic with respect to drones, which raise a whole host of safety and privacy issues that are not raised by ordinary manned aircraft. Section 334 of the 2012 FAA Modernization and Reform Act can be read to address this issue. It specifically provides the FAA with authority over “public unmanned aircraft systems,” meaning those operated by governmental agencies. It specifically directs the FAA to “develop and implement operational and certification requirements for the operation of public unmanned aircraft systems.”

Can you confirm that FAA intends to require (1) airworthiness certificates and (2) airman certificates with respect to the operation of civil unmanned aircraft?

Answer. Acceptable standards for civil unmanned aircraft systems are under development in concert with the Radio Technical Commission for Aeronautics (RTCA) under the new special committee (SC) 228. Requirements for certificate of authorization/experimental category have already been published.

Question. Will these requirements—in particular the airman certificate—be different for the operation of an unmanned aircraft, which in many respects is unlike an ordinary manned aircraft?

Answer. The FAA will work with industry to develop standards for licensing civil pilots of unmanned aircraft. FAA is in the process of determining whether or not any regulatory changes are possibly needed.

Question. Does FAA believe it possesses the authority to require an airworthiness certificate or an airman certificate with respect to public unmanned aircraft operations under section 334 of the 2012 act? If so, does FAA intend to use that authority?

Answer. The FAA intends to comply with the provisions of the FAA Modernization and Reform Act's section 334 on Public Unmanned Aircraft Systems. The current regulatory structure requires public operators to make their own finding of compliance using their processes. FAA will issue guidance regarding a public entity's responsibility when operating an unmanned aircraft without a civil airworthiness certificate issued by the FAA. FAA is in the process of determining whether or not any regulatory changes are possibly needed.

GOVERNMENT ACCOUNTABILITY OFFICE REPORT ON UNMANNED AIRCRAFT SYSTEMS

Question. There remain serious concerns about whether drones can be safely integrated into the national airspace. I direct your attention to a September 2012 Government Accountability Office (GAO) report, which noted the following:

“GAO Reported in 2008 that UAS could not meet the aviation safety requirements developed for manned aircraft and that this posed several obstacles to safe and routine operation in the national airspace system. These obstacles still exist. . . .”

The report, beginning at page 14, goes into detail about the serious issues that remain to be considered and addressed. As it notes: “To date, no suitable technology has been deployed that would provide UAS with the capability to sense and avoid other aircraft and airborne objects.”

The report also cites other issues, including vulnerabilities in command and control, unreliable UAS performance, the issues created by the separation of pilot and aircraft, and the transition to Next Generation Air Transportation System (NextGen).

Is there currently technology that would allow a drone to detect, sense, and avoid other aircraft?

Answer. Air Force Research Labs and NASA have demonstrated new technologies that are capable of detecting proximate aircraft and avoiding them. A standard to allow the certification of these technologies is under development by RTCA. The schedule for completion of the standard is mid-2016.

Question. How are the other issues discussed in the GAO report being addressed?

Answer. The FAA has tasked RTCA to develop standards for radios used in command and control functions in the portion of the spectrum allocated to safety of life uses. These standards will address many of the issues identified in the GAO report and allow for civil aircraft certification. The radio standards are scheduled for mid-2016.

Question. If sense-and-avoid technology is not in place and other safety issues highlighted by GAO are not addressed, would FAA nevertheless proceed with full integration of UAS into the national airspace system?

Answer. The primary mission of the FAA is safety. The FAA will only proceed with integration of UAS once safety issues have been appropriately addressed.

ARMED DRONES

Question. The question of armed drones has, as you may know, gotten a great deal of attention in Congress lately. One issue that appears unsettled is whether current FAA regulations prohibit the arming of a civilian aircraft, including a drone. Under FAA regulations, 14 CFR section 91.15: “No pilot in command of a civil aircraft may allow any object to be dropped from that aircraft in flight that creates a hazard to persons or property. However, this section does not prohibit the dropping of any object if reasonable precautions are taken to avoid injury or damage to persons or property.”

This regulation has been cited as authority for the point that FAA would not allow a civil unmanned aircraft to have a weapon affixed to it. Is this correct?

Answer. FAA Regulation 14 CFR section 91.15 is used to determine the safety of installed equipment. This regulation currently prohibits the use of weapons on an aircraft.

Question. Will FAA be more explicit in regulations that civil unmanned aircraft may not have weapons affixed to them?

Answer. FAA Regulation 14 CFR section 91.15 is used to determine the safety of installed equipment. This regulation prohibits the use of weapons on an aircraft. However, FAA continues to evaluate whether or not regulatory changes are needed.

GRANTS-IN-AID FOR AIRPORTS

Question. The FAA's Grants-in-Aid for Airports, or the Airport Improvement Program (AIP), is the primary FAA program investing in runways, taxiways, and airport infrastructure. In fiscal year 2012, Congress appropriated \$3.35 billion. The President's budget proposes to cut this to \$2.9 billion.

The needs of our commercial airports substantially outpace these resources. But a disproportionate amount of this program's funding (25–35 percent) is spent at airports without any commercial service on which almost all Americans travelers depend.

25 to 35 percent is spent at noncommercial airports even though noncommercial aviation fuel taxes account for about 1 percent of the total Airport and Airway trust fund revenues each year.

Unfortunately, the FAA's fiscal year 2014 budget proposes to prioritize airports without commercial service for Airport Improvement Program funds. The budget proposes that large hub airports cover their infrastructure costs by raising passenger facilities charges.

Is it fair that only 65–75 percent of AIP funding is spent at airports with commercial service when commercial aircraft account for 99 percent of revenue to the Airport and Airway Trust Fund?

Answer. This is fundamental to the safety, efficiency and sustainability of the air transportation system. The perceived disparity between the source of Trust Fund revenues and the types of facilities it supports reflects the fundamental structure of the overall U.S. system of airports. Since the early 1900s, Federal policy has determined it is in the public interest to support a nationally integrated aviation system citing the benefits derived from maintaining a diverse geographic network of airports. Such a system facilitates rural and remote access, supports military and law enforcement needs, expedites emergency and disaster response, and ensures the timely transport and delivery of commercial goods. Moreover, many of the smaller, non-commercial facilities provide alternatives to airports handling commercial passengers, thereby reducing congestion and delay at commercial service airports. The functions supported by these smaller airports are critical. In 2012, the FAA published a study outlining a broad range of critical roles and functions the smaller airports serve, from basic access to flight training, emergency response, agricultural support, aerial firefighting, and many others.

The larger commercial airports, especially large hub airports, have access to other means of capital, including, airport bonds and passenger facility charges (PFCs), not available to the smaller airports.

For more than 30 years, the Airport Improvement Program (AIP) has helped State and local governments plan, develop, improve, and maintain a broad-based system of integrated airport facilities. The AIP provides capital funding to support 3,330 public use airports, heliports, seaplane bases, and landing areas included in the federally-mandated National Plan of Integrated Airport Systems (NPIAS).

Question. Would the FAA support a provision requiring that at least 75 percent of Airport Improvement Program Funding be spent at commercial airports?

Answer. The FAA does not support either limiting the number of airports funded or the reducing the minimum level of funding provided to airports that are classified as non-commercial service airports.

Question. Which investment is likely to benefit the greatest number of Americans: improving airports with commercial service or improving airports without any commercial service?

Answer. The national integrated system needs to be maintained as a whole, with both categories of airports (commercial and non-commercial) able to meet the needs of the users that rely upon them, both directly and indirectly. While people are most familiar with the commercial air travel benefits offered at the 511 commercial service airports in the United States, nearly 3,000 smaller general aviation airports form an extensive airport network and make important social and economic con-

tributions to society. In 2009, non-airline operators at general aviation airports flew an estimated 27 million flights for emergency medical services, aerial fire-fighting, law enforcement and border control, agricultural functions, flight training, time-sensitive air cargo services, search and rescue, and business travel. Many of these functions cannot be safely, efficiently, or economically supported at larger commercial service airports.

In addition to providing unique general aviation benefits, non-commercial service airports provide a critical safety and efficiency complement to commercial service airports. Because of their sheer number and geographic distribution, general aviation airports provide a safety net to support commercial operators in the event of emergency aircraft diversions, medical emergencies, deteriorating weather conditions, or mechanical failures. In high-density metropolitan areas, general aviation airports act as “relievers” for congested commercial service airports by supporting high-volume activity by smaller and slower aircraft.

In summary, it is crucial to our national life and economy that we continue to support both commercial-service and general aviation airports. The Airport Improvement Program has evolved over more than 30 years to achieve precisely that goal.

HELICOPTER NOISE

Question. The fiscal year 2013 Senate Transportation, Housing and Urban Development, and Related Agencies (THUD) report stated: “The Committee recognizes that the use of helicopters in Los Angeles County produces quality of life and safety impacts, prompting requests for FAA action. The Committee directs the FAA to solicit the views of interested parties, including representatives of local communities, regarding helicopter noise and safety issues in Los Angeles County no later than 90 days after the enactment of this act. The committee further directs the FAA to lead a collaborative effort with community representatives, elected officials, helicopter operators, and other affected interests to: (1) identify specific concerns with helicopter operations, including noise; (2) evaluate options that would respond to identified concerns including, but not limited to routes, operating altitudes, and hovering practices; and (3) develop solutions to the identified issues consistent with the FAA’s statutory responsibilities. Potential solutions should not restrict helicopter operations needed for emergency, law enforcement, or military purposes. The committee directs the FAA to submit a report to the House and Senate Appropriations Committee within 12 months of enactment of this act regarding the helicopter concerns in Los Angeles County that have been identified, the progress in addressing these concerns including reasons why some measures were not retained for further study, and the mechanisms for implementing measures and monitoring their continuing effectiveness.” In response, FAA Regional Administrator Bill Withycombe has held public hearings and is studying the problem. He has committed to releasing a report in May 2013 evaluating a full set of voluntary and regulatory options to reduce helicopter noise and address safety issues. The report is a necessary first step. But it must be followed by effective regulations.

During the hearing, we were able to discuss this. You indicated that “non-regulatory” approaches to this problem were preferable because they could be implemented more quickly. However, I am very concerned that voluntary efforts are less effective than regulatory approaches. For instance, on Long Island, New York, FAA established voluntary routes for helicopters in 2008 without success. The FAA finally completed regulations imposing mandatory routes in 2012.

If past voluntary efforts to curb helicopter noise above both Los Angeles and Long Island failed, why does the FAA believe that “non-regulatory” options will succeed above Los Angeles as a result of this latest effort?

Answer. The FAA has had decades of success with fixed-wing aircraft, voluntary noise abatement measures that can be applied to noise abatement measures for helicopters. The FAA does not regard the voluntary efforts in New York or Los Angeles as a failure. In fact, the voluntary route along the north shore of Long Island, which was developed with input from local helicopter operators and airports, reportedly had a high rate of compliance and formed the basis for the regulation adopted last year.

In contrast with the north shore of Long Island, the density of land use and the diversity of helicopter activity in Los Angeles make it difficult to identify noise abatement routes that would avoid residential areas. Some efforts to revise Visual Flight Rules (VFR) helicopter approach and departure tracks for Los Angeles-area airports to minimize noise have not yet produced feasible noise abatement routes. This reflects the challenges of safely routing aircraft in an urbanized environment rather than a failure of the collaborative process used to develop routes. These chal-

lenges make it more important to fully engage both the residents and helicopter operators in addressing noise issues in Los Angeles.

A significant positive development of the current Los Angeles Helicopter Noise Initiative is that it has brought together community representatives and helicopter operators to consider, in conjunction with the FAA, specific noise-sensitive locations and helicopter operating practices that contribute to noise concerns on a regional scale. The group is committed to identifying measures that will provide noise relief without degrading safety or eroding business opportunities. This initiative has already identified targeted measures that can provide noise relief to residents. The FAA recommends the continued engagement of a robust local process and is prepared to support such a process to pursue remedies that will reduce helicopter noise, are responsive to community quality-of-life and economic interests, and are consistent with National Airspace System safety and efficiency.

Question. Which approach to helicopter noise is most likely to reduce noise disturbance on the ground: regulatory or non-regulatory options?

Answer. Success in reducing noise on the ground is directly related to the availability of effective noise abatement procedures, rather than the implementation mechanism. If a procedure can be designed to minimize noise impacts on residential or other noise-sensitive areas, a non-regulatory approach can provide just as much noise relief as a regulatory approach.

The most effective and widely-accepted noise abatement measures are those that are developed in collaboration with stakeholders and are supported by local consensus. The FAA's experience is that voluntary noise abatement procedures have a high degree of compliance when operators can use them safely and efficiently. The current Los Angeles Helicopter Noise Initiative identifies actions and flexible approaches that offer the best opportunity to address helicopter noise issues within the Los Angeles County.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

FURLOUGHS' IMPACTS ON FACILITIES

Question. The airspace over New Jersey is among the most congested in the country, with Newark Liberty Airport serving more than 33 million passengers each year. The Federal Aviation Administration (FAA) has said it intends to apply sequestration in a way that prioritizes safety and impacts the fewest air travelers. I have long been concerned with the understaffing of air traffic controllers at Newark Liberty and I am concerned the sequestration-imposed air traffic controller furloughs will disproportionately impact this airport.

In applying furloughs for air traffic controllers, did you account for the additional impact on facilities that are already understaffed prior to sequestration, such as the Newark Liberty tower?

Answer. Yes. Individual facilities were able to determine how best to implement the furloughs to minimize disruption based on their shift scheduling and staffing requirements.

Question. Newark Liberty has the highest washout rate of any air traffic tower in the country, so it recently had a simulator installed to help trainee performance. Will furloughs impact training time on the simulator?

Answer. The funding relief provided by the Reducing Flight Delays Act of 2013 will enable the restoration of key support activities, including training simulation at Newark Liberty.

OPERATIONS IN NEWARK AIRPORT

Question. The fiscal year 2014 budget request proposes to transfer the responsibility for staffing the exit lanes adjacent to passenger screening checkpoints from the Transportation Security Administration (TSA) to commercial airport authorities. This issue is of particular concern to me because Newark Airport has seen numerous security breaches over the past few years. In 2010, a man breached an exit lane at Newark Airport without being screened and shut down the airport for more than 6 hours, affecting 16,000 passengers around the world.

What impact could this transfer have on airport budgets and other operations funded by airports?

Answer. The Transportation Security Administration determines the staffing levels, qualifications, and operational requirements necessary to meet Federal standards for airport exit lane staffing. TSA would be in the best position to quantify the operational and other related costs airports would assume in order to comply with

TSA requirements. The FAA would not be in a position to determine the impacts of such decisions on a specific airport's operating budget.

Question. What challenges would this transfer in responsibility present to Newark Airport and Atlantic City Airport?

Answer. The TSA and operators of Newark Airport and Atlantic City are in the best position to provide specific details on the costs, personnel, and related operating expenses that would result from the transfer of specific TSA operations to the airport operator.

REMOTE HIGHJACKING OF AIRCRAFT

Question. A German security consultant recently claimed to have developed technology that could be used to remotely hijack an airplane, alleging that current security systems do not have adequate authentication methods to ensure commands are from a legitimate source. The FAA released a statement saying it is aware of this claim and has said it does not pose a threat on actual commercial flights.

What steps has the FAA taken to determine and ensure this is not a problem on commercial flights?

Answer. The FAA along with Honeywell, the U.S. manufacturer of the system that was allegedly threatened, worked together to investigate the technical threat immediately after learning about the allegation. Honeywell quickly discerned and verified the methods and tools the hacker used to create the experiment. The theoretical threat was based entirely within a training system that runs on a desktop personal computer (PC) whose hardware and software differed significantly from actual aircraft equipment. A later version of the consultant's experiment, which appeared in media coverage, used a mobile phone application to communicate with his desktop PC. None of the experiments involved communication with an actual airplane.

The FAA determined that the hacking technique described during the recent computer security conference does not pose a flight safety concern because it does not work on any actual, certified aircraft hardware or software.

Question. When did the FAA become aware of this application?

Answer. The FAA first learned of the alleged threat on March 22, 2013, when the security consultant was preparing a briefing for a computing conference in Amsterdam, the Netherlands. Our investigation was completed before the conference began. Honeywell, the European Aviation Safety Authority, and the German Police made the consultant aware of the deficiencies in his allegations before the conference. The consultant chose nevertheless to deliver his presentation on April 8, 2013.

Question. Will you commit to reviewing the potential threat and updating me on steps being taken to address any deficiencies in our security systems that could leave an aircraft open to an attack of this nature?

Answer. We have reviewed the threat, determined it to be false, and, as a result, plan no further action at this time. The FAA provided this information to foreign civil aviation authorities and to the public in press releases. Our investigation, using all information available to us from the consultant and from Honeywell, has been completed to our satisfaction, with no credible threat found. The German consultant promised to provide more information to the FAA and Honeywell in support of his claim, but none has been received.

Question. Are current laws, specifically on cyber security, sufficient to address the nature of this threat?

Answer. The FAA believes current laws are sufficient to address the nature of this threat. Aircraft certification regulations under title 14 Code of Federal Regulations, including special conditions we levy on new aircraft programs which use networked or accessible computing systems, require aircraft manufacturers to design security features into their on-board systems. Numerous other Federal laws, outside the scope of our certification mandate, would forbid and impose punishments for the act by a hacker of attempting an attack against an aircraft.

CONTRACT WEATHER OBSERVERS

Question. Major airports, such as Newark Liberty, are required to employ certified contract weather observers to ensure the accuracy of weather reports provided to the airlines and the public. Due to sequestration, we have heard concerns that the FAA may consider closing down the contract weather observation program and transferring the observation responsibilities to air traffic controllers.

Is the FAA proposing to eliminate the contract weather observation program?

Answer. The fiscal year 2014 President's budget request includes sufficient funding to continue the contract weather observation program.

Question. If so, what would be the impact of transferring weather observing responsibilities to air traffic controllers? Specifically, what would the implications be at Newark Airport, given that the Newark air traffic control tower is already understaffed?

Answer. The fiscal year 2014 President's budget request includes sufficient funding to continue the contract weather observation program.

NEXT GENERATION AIR TRANSPORTATION SYSTEM

Question. To upgrade the air traffic control system, the FAA is implementing the Next Generation Air Transportation System (NextGen) to reduce gridlock, delays, and safety concerns through a satellite-based system. The William J. Hughes Technical Center in New Jersey—the Nation's premier facility for aviation research, development, and testing—currently conducts NextGen research.

How will NextGen research and implementation be impacted by the fiscal year 2014 budget?

Answer. The fiscal year 2014 NextGen investment portfolio totals \$1.002 billion, of which \$928.1 million is allocated to Facilities and Equipment (F&E), \$61.4 million to Research, Engineering and Development (RE&D), and \$12.6 million to Operations activities.

The fiscal year 2014 NextGen F&E budget request is \$928.1 million, an increase of \$65.3 million above the fiscal year 2012 enacted level. This level of F&E program funding enables the agency to continue support of near-term NextGen commitments. The funding allows the migration of pre-implementation activities from NextGen-Reduced Weather Impact solution set into an implementation program beginning in fiscal year 2014.

The fiscal year 2014 NextGen RE&D budget request is \$61.4 million, an increase of \$1.7 million above the fiscal year 2012 enacted level. This allows us to continue the progress we've made in NextGen-specific research into wake turbulence, human factors, and clean aircraft technologies.

The fiscal year 2014 NextGen Operations budget request is \$12.6 million; an increase of \$0.2 million above the fiscal year 2012 enacted level. This level of Operations activities continue to support the dedicated full-time equivalents (FTEs) required to implement NextGen.

The NextGen investment portfolio enables the implementation of Performance Based Navigation (PBN) procedures. The PBN is an aircraft navigation capability which allow for greater operational flexibility. An example is reducing the environmental footprint of greenhouse gas emissions and noise created by the aviation industry.

Finally, the FAA NextGen capabilities continue to provide significant improvement to the aviation industry; such as:

- System Wide Information Management (SWIM).*—Allows operators to make better-informed decisions that improve their efficiency. This capability has been demonstrated by receiving surface movement data through this single portal at 19 external consumers.
- Automatic Dependent Surveillance-Broadcast (ADS-B).*—Transform the Nation's air traffic system by utilizing global satellites to provide more precise location data. This capability has been demonstrated by supporting surface advisory services at 24 airports.

QUESTIONS SUBMITTED BY SENATOR MARK KIRK

CONTRACT TOWERS

Question. The Federal Aviation Administration (FAA or Administration) issued an appeals process for contract towers slated for closure and established four criteria for national security concerns that the FAA would evaluate.

Did the Administration rank all the appeals in order of national security importance? If not, how were decisions made regarding what met the FAA's criteria? If they were ranked, please provide the list of airports and towers in order of national security interest priority for all airports that appealed the closure decision.

Answer. The FAA did not rank the airports by order of national security. The FAA considered all of the input provided by the Department of Defense (DOD) and other agencies during the review process. FAA coordinated with the DOD, and the DOD provided FAA with feedback on their top priorities. In addition, the FAA coordinated with the Transportation Security Administration (TSA), the United States Coast Guard (USCG), the United States Secret Service (USSS), the Federal Bureau of Investigation (FBI) and the U.S. Marshal Service.

Question. Did FAA conduct a separate and distinct safety management assessment for each impacted contract tower prior to the closure announcements?

Answer. The FAA conducted a safety assessment for each tower prior to implementation of any proposed change as required by FAA regulations. In accordance with Air Traffic Organization (ATO) Order JO 1000.37, the Air Traffic Organization Safety Management System, and the Air Traffic Organization Safety Management System Manual (SMS Manual): all proposed changes to the National Airspace System (NAS) require Safety Risk Management (SRM) evaluation. SRM is broadly applied to changes that may affect the NAS to “ensure that hazards are identified and unacceptable risk is mitigated and accepted prior to the change.”

This includes “any change to or modification of airspace; airports; aircraft; pilots; air navigation facilities; air traffic control (ATC) facilities; communication, surveillance, navigation and supporting technologies and systems; operating rules, regulations, policies, and procedures; and the people who implement, sustain, or operate the system components.”

The level at which an SRM is conducted varies by organization, change proponent and/or type of change. In some cases, SRM Panels will perform SRM at the national level, and in other cases, SRM Panels will perform SRM at the service area or local level. There are five phases of a SRM safety analysis, which culminates in a Safety Risk Management Document (SRMD). A SRMD describes the safety analysis for a proposed change and documents the evidence to support whether the proposed change is acceptable from a safety risk perspective. The SRMD is intended to enable the relevant management officials to understand the proposed change, its associated risks, and corrective steps taken (or proposed) to reduce the initial and subsequent residual risks to an acceptable level.

Prior to the decision or announcement to withdraw funds from Federal contract towers, subject matter experts (SME) from the Air Traffic Organization (ATO) and other FAA offices, namely Flight Standards and Airports, conducted a thorough review of the safety implications and determined that the FAA had adequate and long-standing controls to address the risk associated with the potential closure of towers and the transfer of airspace among facilities. In fact, all but one of the identified towers close for several hours each day; so, the FAA was assured that any potential closure or airspace transfer procedures and processes are exercised daily; although a permanent closure might require additional planning requirements. Additionally, there are approximately 5,000 non-towered public use airports in the United States with daily operations; which validates the safety of those environments.

Following the determination that sufficient and long-standing safety standards and processes exist to operate at both towered and non-towered environments, ATO convened an SRM Panel from April 2–4, to ensure that stakeholders had an opportunity to address hazards and/or potential mitigations assuming a worst case scenario where all 149 towers would close and transition to non-towered operations; and, to develop additional risk controls and, if needed, implement them before any tower closures.

Question. Why did the FAA choose to cut specific towers completely from the program instead of reducing contract support for the entire program?

Answer. The FAA guiding principle, as we planned for sequester, was to minimize the impact to the greatest numbers of passengers. Therefore, initial plans impact smaller, lower activity locations more significantly than locations serving larger blocks of passengers. The criteria used identified towers that had less than 150,000 total operations and 10,000 commercial operations annually.

SEQUESTER COORDINATION

Question. You have obviously been working on a sequestration plan for some time and have known the potential impacts have a cascading effect. Air travel is a joint effort between several agencies including FAA, TSA and Customs.

Given your travel prognosis, what type of coordination have you done with TSA and Customs?

Answer. As part of sequestration planning efforts, numerous operational components of the FAA, TSA, and Customs and Border Protection (CBP) participated in several interagency telecons to discuss possible trans-agency impacts and mitigation strategies. Additionally, there was frequent contact between the FAA, TSA, and CBP at the managerial and executive levels to exchange information and discuss ways to synchronize mitigation efforts.

Question. If no coordination occurred, why didn't the Administration work out a strategy in advance? There have been several weeks of lead-up to this situation;

why would you wait until the last minute to release your plan to the industry and Congress?

Answer. As we have planned for and implemented measures to achieve the mandatory sequester reductions, we have consistently shared the potential impact that sequester could have on the National Airspace System with Congress, the aviation sector, our employees, and the traveling public. As early as February, we advised that we expected the automatic cuts to have a significant adverse impact on the aviation system and air travelers. We urged our stakeholders to work with us to minimize these impacts to the extent possible. Our outreach included written communications, congressional briefings, meetings, and testimony on Capitol Hill.

QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

GENERAL AVIATION ALTERNATIVE FUELS

Question. The administration included funding in the fiscal year 2014 budget for an Alternative Fuels for General Aviation program that seeks to move the work of the Federal Aviation Administration (FAA) and industry from research to a phase focused on coordinating and facilitating the fleet-wide evaluation, certification and deployment of an unleaded fuel in piston engine aircraft. Why is this program important?

Answer. The intent of this initiative is to implement an unleaded fuel for piston-powered aircraft engines to replace the current leaded aviation gasoline (avgas) 100 low lead (100LL). The continuation of FAA research is necessary to test, identify, and approve a replacement fuel that can be safely used by as much of the existing fleet of aircraft as possible. This program is important for human health impacts, fuel security, and the continued viability of the general aviation community.

Aviation gasoline (avgas) is a vital element of the piston engine aircraft safety system. Approximately 167,000 aircraft in the United States and 230,000 worldwide rely on 100LL avgas for safe operation. 100LL is the only remaining transportation fuel that contains the additive tetraethyl lead (TEL). TEL has been used as an avgas additive for decades to create the high octane levels required to prevent detonation (engine knock) in high power aircraft engines. Operation with inadequate fuel octane can result in engine failure in flight and aircraft accidents.

The U.S. Environmental Protection Agency (EPA) is currently evaluating the health and environmental impacts of lead emissions from aircraft, and has identified that general aviation contributes to possible violations of ambient air quality lead standards. Petitions and litigation from environmental organizations have called for the EPA to consider regulatory actions to eliminate or reduce lead emissions from aircraft. These activities raise concerns about the continued availability and use of leaded avgas.

Equipment manufacturers, owners and aircraft operators fear that the uncertainty about the future availability of a safe fuel for their airplanes is affecting the value of existing aircraft, impacting new aircraft development, and affecting the growth of the general aviation market. In response to the rapidly increasing concerns expressed by the general aviation community regarding the continued availability of 100LL, the Unleaded AVGAS Transition Aviation Rulemaking Committee (UAT ARC) was chartered on January 31, 2011, by the Federal Aviation Administration (FAA) Administrator. The final report of the UAT ARC can be found on the FAA Avgas Web site at the following URL: <http://www.faa.gov/about/initiatives/avgas/> in the Archived Articles section.

The UAT ARC recommended that the FAA collaborate with industry to establish an unleaded avgas testing and evaluation program that would facilitate the development, approval and deployment of a replacement fuel for 100LL that would have the least possible impact on the existing fleet of aircraft. It was recommended that this program rely on the vast experience of the FAA William J. Hughes Technical Center to perform this testing. The research to be conducted at this facility will shift from developing a drop-in unleaded fuel to testing and identifying the best possible replacement unleaded fuel.

In addition, section 910 of the 2012 FAA Modernization and Reform Act specifies Research, Engineering and Development (RE&D) requirements to facilitate the transition to unleaded avgas. The FAA has developed a plan to implement the recommendations of the UAT ARC and will integrate the fuel evaluation and testing program with the requirements of section 910.

Finding a safe, high octane unleaded replacement for leaded avgas is an ongoing technical challenge that can benefit greatly from continued FAA research. Piston engine aircraft are used for many purposes including business and personal travel,

aerial surveys, agriculture, firefighting, law enforcement, medical emergencies, express freight, and instructional flying. The collective, continued service of piston engine aircraft in an operationally safe manner is essential. This program, to develop and promote an unleaded replacement avgas, will address environmental concerns associated with leaded fuels and provide a safe option for the general aviation industry.

CERTIFICATION PROCESS

Question. In the last FAA reauthorization, Congress included language to identify some needed reforms in the certification process. These reforms would focus FAA resources more effectively on safety critical activities and also begin to address the certification backlog that threatens the competitiveness of the U.S. aviation industry.

Are you moving forward with implementation of these reforms?

Answer. Yes. The Aircraft Certification Service (AIR) developed an implementation plan, issued on August 13, 2012, to address the reforms identified in section 312 of the FAA Modernization and Reform Act of 2012. The implementation plan addresses each of the six recommendations developed from an industry and FAA assessment of the existing certification and approval processes. As individual projects or improvements from the implementation plan are completed, we will measure how effective the change was in addressing specific goals. This will allow us to iterate the process to continue the improvement until the goal has been fully met.

Question. What is the most challenging aspect of these improvements?

Answer. The Aircraft Certification Process Review and Reform (ACPRR) Aviation Rulemaking Committee (ARC) submitted the following recommendations to the Director of Aircraft Certification on May 22, 2012:

1. Development of Comprehensive Means To Implement and Measure the Effectiveness of Implementation and Benefits of Certification Process Improvements;
2. Enhanced Use of Delegation;
3. Integrated Roadmap and Vision for Certification Process Reforms;
4. Update Part 21 To Reflect a Systems Approach for Safety;
5. Culture and Change Management; and
6. Process Reforms and Efficiencies Needed for Other Aircraft Certification Service (AIR) Functions.

Recommendations from the ARC were included in a report provided to Congress on August 13, 2012. The FAA fully supports these recommendations and developed a comprehensive implementation plan consisting of 14 initiatives addressing each item. Implementation actions began in 2012, in advance of the act requirement to begin implementation no later than February 14, 2013.

There are two large and comprehensive rulemaking projects to update part 21 and reorganize part 23. These are multi-year projects that require extensive coordination within the Government and with industry. Another challenge is to streamline the adoption of airworthiness directives issued by other civil airworthiness authorities. This initiative includes an evaluation of statutory impediments.

Question. Do you have the resources to manage these changes?

Answer. In fiscal year 2013 we have allocated sufficient resources to initiate certification process reforms. The 2014 budget request also fully supports this work. However, this is a difficult budgetary environment. In fiscal year 2013 under sequestration, we instituted a hiring freeze for FAA beginning March 1. Staffing levels can impact progress on our implementation plan, and as a result we are closely monitoring attrition and overall staffing levels.

CONTRACT TOWERS

Question. Congress recently enacted legislation giving the FAA flexibility to: (1) end furloughs that threaten to disrupt our economy and destroy jobs that depend on air travel; and (2) prevent the planned closure of 149 contract towers.

When will you announce your plan to carry out the clear, unambiguous intent of Congress and forestall the planned closure of 149 towers that had been scheduled to start on June 15, 2013?

Answer. Secretary LaHood announced on Friday, May 10, 2013, that the Department of Transportation (DOT) has determined that the recently enacted Reducing Flight Delays Act of 2013 will allow the FAA to transfer sufficient funds to end employee furloughs and keep the 149 low-activity contract towers, originally slated for closure in June, open for the remainder of fiscal year 2013.

BUSINESS AVIATION AND GENERAL AVIATION—ECONOMIC IMPACT AND OPPORTUNITIES

Question. Aviation manufacturing and businesses that utilize general aviation (GA) are critical to economic opportunity in Arkansas and across our country. General aviation pumps more than \$1 billion into the Arkansas economy every year, and our State is a proud home to large and small manufacturers that serve the general aviation sector, as well as other businesses that service and/or rely on GA aircraft. Our country is a leader in aviation manufacturing and technology, and this sector provides tremendous opportunities for growth and export. GA is a diverse sector that includes medical transport, business aviation, agricultural aviation, search and rescue, recreational flying, aerial firefighting, air charter, bush flying, and a variety of other activities.

I remain concerned about political rhetoric that castigates business aviation and general aviation to score cheap political points. Do you believe that business aviation is essential to economic strength and job opportunities in our country, and do you believe that it should not be unfairly targeted as an activity deserving disparate treatment under Federal law?

Answer. The FAA recognizes the critical role general aviation (GA) plays in supporting jobs and generating significant economic activity for the country. FAA's latest aviation forecast sees growth in business aviation demand over the long term driven by a growing U.S. and world economy especially in the turbo jet, turboprop and turbine rotorcraft markets. As the fleet grows, the number of general aviation hours flown is projected to increase an average of 1.5 percent a year through 2033.

Support for GA is part of the administration's goal to invest in the Nation's transportation infrastructure. The U.S. Department of Transportation and the Federal Aviation Administration (FAA) continue to invest in and improve GA and airports that serve GA through ongoing initiatives including direct support to airports, Next Generation Air Transportation System (NextGen) safety enhancements, and improving access to data.

Question. Will you address the importance of general aviation to our economy?

Answer. According to a study done by the FAA in 2011, general aviation operations added nearly \$39 billion and approximately 496,000 jobs to the United States economy. To support the Nation's GA airports, FAA awards an average of \$1 billion in Airport Improvement Program (AIP) grants annually. These grants help GA airports fund safety, capacity, standards and environmental improvements. Moreover, under the State Block Grant Program, participating States are allowed to administer AIP funds at non-primary airports. In addition, FAA has been working with the GA community on an ongoing study to develop a strategic plan for GA airports in the United States.

Through NextGen, the FAA has demonstrated its commitment to ensuring improved access and level of service for GA operators. For example, with the implementation of new technologies and procedures for the Wide Area Augmentation System (WAAS), and Localizer Performance with Vertical Guidance (LPV), GA operators have unprecedented access to airports where no ground-based instrument landing systems exist. Using these technologies and procedures, GA aircraft can land at airports even when visibility is limited. As of February 2012, there were nearly 2,800 WAAS LPV approach procedures to more than 1,400 airports throughout the United States.

Enhancing safety in GA operations is an FAA priority and is critical to supporting the growth of GA. Reducing the fatal accident rate for GA is one of the agency's strategic goals. We are also improving tracking of aircraft position and providing GA operators with tools that provide increased awareness of weather, terrain, aircraft and other conditions in the national airspace. Through another NextGen technology, Automatic Dependent Surveillance-Broadcast (ADS-B), GA pilots will have greater situational awareness.

To further enhance access and capabilities of GA aircraft and pilots, the FAA is currently developing technologies and policies that make FAA data more accessible to GA pilots through Internet-based portals. These portals support open government initiatives and will enable individual pilots to access new sources of information. The FAA is also making data and services more accessible through the use of new tools like the Apple iPad, which, when used as an Electronic Flight Bag, can be used for viewing navigational charts and approaches to airports.

Through these initiatives, FAA continues its active support of the GA industry.

USER FEES

Question. The administration's use-fee proposal could potentially levy a fee on aircraft used to conduct aerial application activities by thousands of dollars per day,

since they take off and land frequently to treat farmers' crops. This would cause great harm to farmers, aerial applicators, and food consumers.

Are you concerned about the impact this proposal would have on agricultural aviation and other users that require frequent take offs and landings?

Answer. This proposal would create a per flight fee by aviation operators who fly in controlled airspace. Military aircraft, public aircraft, recreational piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempted. Aircraft conducting aerial application activities and that fly outside of controlled airspace, like those used in agricultural aviation, would not pay the flight surcharge fee.

AGRICULTURAL AVIATION AND LOW-LEVEL AIRSPACE SAFETY ISSUES

Question. Agricultural aviation is extremely important to many Arkansas farmers. Do you recognize the importance of this niche sector in the aviation community, and will you commit to work with stakeholders and with my office to address the unique needs and concerns of this sector?

Answer. The Federal Aviation Administration recognizes the vital link between the agricultural aviation industry and American farmers, including those in the State of Arkansas. In order to communicate with this specific industry segment, we have participated in meetings hosted by the Arkansas Agricultural Aviation Association. In addition, we have a long-standing partnership with the director for the Arkansas Department of Aeronautics, including meetings on at least a quarterly basis to exchange updates on aviation topics of interest at the State and/or Federal levels.

At the regional level, our staff performs regularly scheduled outreach efforts with congressional staff to address any identified State-level issues of interest and share updates on agency efforts related to local areas of interest including NextGen, Unmanned Aircraft Systems, and obstacle evaluation, marking and lighting efforts.

Question. The FAA is rightly working to integrate Remotely Piloted Aircraft (RPAs) into the airspace. As this work continues, what is the Administration doing to ensure other, long-standing users of low-level airspace, such as aerial applicators, are protected from mid-air collisions and other operations that may prevent them from safely and effectively treating crops, protecting the public health, and combating forest fires at low levels?

Answer. The integration of Unmanned Aircraft Systems (UAS) into the National Airspace System (NAS) will require the FAA to carefully evaluate safety impacts on current NAS users, regardless of their altitude, size, or mission. Once the FAA has evaluated the safety impacts for a specific type of UAS operation, we will develop the appropriate regulatory requirements and risk mitigation strategies. We will ensure that UAS operations do not diminish safety or increase risk to persons or property in the air or on the ground.

Question. What is the status of the feasibility study FAA is conducting on the development of a database that would show the location of free-standing and guy-wired towers below 200 feet?

Answer. The FAA has completed the analysis as directed in section 219 of the FAA Modernization and Reform Act (Public Law 112-95). Our report is in final executive review and will be delivered to Congress in the near future.

Question. Does FAA believe it possesses the authority to require an airworthiness certificate or an airman certificate with respect to public unmanned aircraft operations under section 334 of the 2012 act? If so, does FAA intend to use that authority?

Answer. The FAA intends to comply with the provisions of the FAA Modernization and Reform Act's section 334 on Public Unmanned Aircraft Systems. The current regulatory structure requires public operators to make their own finding of compliance using their processes. FAA will issue guidance regarding a public entity's responsibility when operating an unmanned aircraft without a civil airworthiness certificate issued by the FAA. FAA is in the process of determining whether or not any regulatory changes are possibly needed.

Question. I am told that agricultural aviation interests have requested that the FAA expand Advisory Circular (AC) No. 70/7460-1 to include marking guidance not just for meteorological evaluation towers under 200 feet but for all towers—free-standing and guy-wired. Is the FAA considering this expansion of the AC?

Answer. Requirements to file notice under 14 CFR part 77 generally do not apply to structures at heights lower than 200 feet unless they are close to an airport environment. Meteorological evaluation towers (METs) under 200 feet do not meet the provisions of part 77 and the FAA does not conduct aeronautical studies to determine whether these structures are obstructions or whether they adversely impact air navigation. However, the FAA acknowledges that METs in remote, rural agricul-

tural areas may be difficult to see by low-level agricultural flights operating under visual flight rules. It was the combined factors of these structures being in rural, remote areas, the speed of their construction, and skeletal composition that led to additional, limited marking guidance. Guidance was not applicable to METs that are erected in urban areas and far removed from rural agricultural spraying operations.

The request to expand marking guidance for structures other than METs is not based on safety of flight issues. The guidance used for METs is not feasible or warranted for other structures under 200 feet. Other structures do not carry the same visibility concerns of skeletal METs, and additional marking guidance may cause an undue burden on the public.

SUBCOMMITTEE RECESS

Senator COLLINS. This hearing is recessed.

On next Thursday, April 25, at 10 a.m., we will hold a hearing on the Federal Housing Administration. Thank you all.

[Whereupon, at 11:56 a.m., Thursday, April 18, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 25.]

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2014**

TUESDAY, JUNE 4, 2013

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

The subcommittee met at 2:30 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.
Present: Senators Murray, Collins, and Boozman.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENTS OF:

**HON. CAROL GALANTE, COMMISSIONER AND ASSISTANT SECRETARY
FOR HOUSING, FEDERAL HOUSING ADMINISTRATION
HON. DAVID A. MONTOKA, INSPECTOR GENERAL, OFFICE OF INSPEC-
TOR GENERAL**

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. The subcommittee will come to order. Senator Collins will be here in just a few minutes, but we'll go ahead and get started.

But before we do begin, I do want to just take a moment to remember Senator Frank Lautenberg. He was a passionate public servant who wasn't afraid to fight for what he believed in. It goes without saying he was a wonderful member of this subcommittee, and he was actually former chairman of this subcommittee and added a really important voice to many of our housing and transportation issues. He was a tireless advocate for his State and for policies that protected Americans.

He fought hard to make sure we funded Amtrak and banned smoking on airlines and raised the drunk driving standard. We owe him a tremendous debt. So I just wanted to start today by remembering him and letting his family know how much all of us have them in our thoughts and prayers.

During this hearing this afternoon, we will hear from Federal Housing Administration (FHA) Commissioner Carol Galante and Housing and Urban Development (HUD) Inspector General David Montoya.

I want to thank both of you for your patience with scheduling this hearing. Both Senator Collins and I had conflicts and had to move this around, and I really appreciate your coming and being here today. FHA is an important issue and your input is really val-

uable to this subcommittee. So thank you for accommodating our changes and welcome to both of you.

It has been almost 6 years since the housing market collapsed. In the lead-up to that crisis, home prices were on a seemingly unstoppable upward climb while home ownership became a new reality for millions of Americans. But the promises made to homeowners and investors alike were too good to be true, and when the risks associated with these mortgages began to materialize, it was too late to stop the damage.

When defaults and foreclosures skyrocketed, the impact was felt not only by the defaulting homeowners but by entire communities that watched their home values plummet, by investors who bet on these products and lost, and, of course, by older Americans who saw the value of their retirement savings tumble. During this crisis, FHA quickly stepped in to ensure a functioning mortgage market, and there's no question that intervening in the faltering housing market exposed FHA to greater risk.

FHA INSURANCE FUND

But FHA 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 have been far higher. Today, we are finally starting to see signs of recovery. New homes are being built. Home sales are up. Foreclosures are down, and home prices are now beginning to rise.

But we are still dealing with the fallout from the housing market's boom and bust. While some homeowners are feeling relief from increased home prices, this is not true for everyone. I still hear from families that are underwater in their homes and unable to refinance. They feel trapped, unable to move to a new job or to a neighborhood with a better school. Unable to refinance at today's historically low rates, they remain saddled with excessive mortgage payments, money that could be better spent on family and at local businesses or saved for their kids' college education.

We are acutely aware of the consequences for FHA and possibly the taxpayer, as the Mutual Mortgage Insurance (MMI) Fund has sustained significant losses in recent years. The President's fiscal year 2014 budget indicates that FHA may require taxpayer funding to cover the losses to its mutual mortgage insurance fund this year. This would represent the first time the fund would need taxpayer funding in its history.

In the past 3 years, HUD has taken numerous steps to strengthen the fund. It has raised insurance premiums five times, it tightened its standards, and it placed new requirements on program participants. Yet the biggest drain on the fund continues to be those older loans originated at the height of the housing market when lending standards and program rules were too lax.

So we must ensure that HUD has the authority it needs and is taking all the steps necessary to mitigate losses from those loans. This includes recovering money from servicers and lenders that did not follow HUD rules and regulations. The \$25 billion settlement that 49 States, the District of Columbia, and the Federal Government reached last year with the five largest servicers resulted in \$684 million being returned to Federal housing programs.

But the work determining responsibility for losses didn't stop with that settlement. FHA's Office of Inspector General (OIG) and the Department of Justice continue to investigate lenders to ensure that FHA is not paying for losses on loans that should never have been made.

As a result, there have already been five further settlements, bringing the total amount returned to the MMI Fund to over \$1.1 billion. I want to thank both the Commissioner and the Inspector General for the important work they're doing on that issue. The taxpayer should not have to pay for losses of lenders who did not follow the rules.

We also need to ensure that the terms of settlement agreements are being honored. And I am concerned by recent reports that some of the banks may not be providing the relief to borrowers that they committed to under the terms of the settlement. So the work to hold the lenders accountable continues.

HOME EQUITY CONVERSION MORTGAGE

While we must hold lenders accountable for not following the rules, we must also make sure that we have the right rules in place. As we discussed with the Secretary when he testified before us several weeks ago, the Home Equity Conversion Mortgage, or HECM, requires careful examination. This product can be a good option for seniors who want to stay in their homes as they get older. But the recent crisis has exposed serious flaws in this program, and it is clear that as currently designed, the program is not working for taxpayers or, in many cases, for borrowers.

Some seniors and their families did not fully understand the product and are now facing foreclosure. These loans have resulted in significant losses to the MMI Fund. In fact, without the HECM mortgages, FHA's insurance fund would have a positive balance. HUD has suggested steps Congress can take to strengthen the program. I know the Inspector General's Office has studied this subject and suggested improvements as well.

So I look forward today to a discussion on how we can work together to preserve a responsible product for people who need it while ending the practices and policies that add unnecessary risks to borrowers and to the FHA's insurance fund.

In addition to HECM changes, HUD, its Inspector General, and the Government Accountability Office (GAO) have identified other steps that can be taken to strengthen FHA. For example, HUD has sought additional enforcement authority to ensure that unscrupulous lenders can't continue to originate FHA-insured loans. And the Inspector General has recommended changes to how HUD manages loans that experience early default.

But it's also important to recognize many of these changes can't be made quickly or at all without the help of Congress. So we need to hear from both of you about what happens if Congress doesn't provide the necessary legislative authority to make additional program changes.

We must also continue to ensure effective management of FHA's programs and operations. For many years, staffing challenges and outdated information systems have compromised effective management of FHA programs. HUD must have staff with the necessary

skills to monitor its programs and understand the risks in both the market and its portfolio.

In recent years, this subcommittee has provided HUD with resources to address its staffing needs, including funding for the recently established risk office. Since 2010, Congress has also invested millions of dollars in upgrading FHA's information technology (IT) systems to increase its efficiency and to better detect risk.

The success of the FHA Transformation IT Project is critical to FHA's short- and long-term health. This subcommittee is closely following the management of this project, so I want to discuss its current status as well as its future.

While HUD has made progress in improving its information systems and filling important positions, sequestration creates new challenges for FHA. HUD will be forced to make difficult decisions about which of its IT projects will continue to go forward and which ones will be slowed down or even canceled. Staff will be furloughed, and some positions lost through attrition may not be filled.

SEQUESTRATION

The broad consequence of sequestration cuts across the Government could also impact FHA. Sequestration threatens our fragile economy and housing market. The financial position of the MMI Fund benefits as the housing market and economy improve, but it will also suffer if our economy slows. So we have to continue to work for a fair and balanced solution that provides certainty to our Federal agencies and to the American people.

The budget we recently passed in the Senate provides a path forward that balances responsible spending cuts with necessary investments. I look forward to working with my colleagues in both the House and Senate soon, I hope, to enact a responsible budget compromise.

PREPARED STATEMENT

Ms. Galante and Mr. Montoya, both of you serve in important roles as we continue to deal with the consequences of the housing crash and think through the future of FHA and America's housing finance system, and I look forward to our discussion today.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

LAUTENBERG REMEMBRANCE

Before we begin, I'd like to take a moment to join my colleagues in remembering Senator Frank Lautenberg. Frank was a passionate public servant who was not afraid to fight and vote for what he believed in.

As a member of this subcommittee and former Chairman, Frank added an important voice on the many housing and transportation issues we consider.

He was a tireless advocate for his State and for policies that protected the safety of Americans, whether it was ensuring funding for Amtrak, banning smoking on airlines or strengthening the drunk driving standard. Frank gave everything he had to public service and those who served with him know that it gave him all the satisfaction in the world.

He will be missed by all those who served with him on this committee and here in the Senate.

HEARING INTRODUCTION

This afternoon we will hear testimony from Federal Housing Administration (FHA) Commissioner Carol Galante and Department of Housing and Urban Development (HUD) Inspector General David Montoya.

I want to thank Commissioner Galante and Inspector General Montoya for their patience with the scheduling of this hearing. Both Senator Collins and I had scheduling conflicts that made it necessary to reschedule. But the FHA is an important issue and your input is valuable to this subcommittee, so thank you for accommodating the changes and welcome.

It has been almost 6 years since the housing market collapsed. In the lead up to the crisis, home prices were on a seemingly unstoppable upward climb while homeownership became a new reality for millions of Americans.

But the promises made—to homeowners and investors alike—were too good to be true. And when the risks associated with these mortgages began to materialize, it was too late to stop the damage. 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 the value of retirement savings tumble.

During this crisis, FHA quickly stepped in to ensure a functioning mortgage market. And there is no question that intervening in the faltering housing market exposed FHA to greater risk. But FHA 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.

Today, we are finally starting to see signs of recovery:

- new homes are being built;
- home sales are up;
- foreclosures are down; and
- home prices are rising.

But we are also still dealing with the fallout from the housing market's boom and bust. While some homeowners are feeling relief from increased home prices, this isn't true for everyone. I still hear from families that are underwater in their homes and unable to refinance. They feel trapped, unable to move for a job or to a neighborhood with a better school. Unable to refinance at today's historically low rates, they remain saddled with excessive mortgage payments—money that could be better spent on family and at local businesses, or saved for the kids' college education.

We are acutely aware of the consequences for FHA—and possibly the taxpayer as the Mutual Mortgage Insurance (MMI) Fund has sustained significant losses in recent years.

LOSSES TO THE MUTUAL MORTGAGE INSURANCE FUND

The President's fiscal year 2014 budget indicates that FHA may require taxpayer funding to cover the losses to its Mutual Mortgage Insurance Fund this year. This would represent the first time that the fund would need taxpayer funding in its history. In the past 3 years, HUD has taken numerous steps to strengthen the fund. It has:

- raised insurance premiums five times;
- tightened its standards; and
- placed new requirements on program participants.

Yet the biggest drain on the fund continues to be those older loans originated at the height of the housing market when lending standards and program rules were too lax. So we must ensure that HUD has the authority it needs and is taking all of the steps necessary to mitigate losses from these loans. This includes recovering money from servicers and lenders that did not follow HUD rules and regulations. The \$25 billion settlement that 49 States, the District of Columbia, and the Federal Government reached last year with the five largest servicers resulted in \$684 million being returned to Federal housing programs. But the work determining responsibility for losses did not stop with that settlement.

FHA, HUD's Office of Inspector General, and the Department of Justice continue to investigate lenders to ensure that FHA isn't paying for losses on loans that should never have been made. As a result, there have already been five further settlements bringing the total amount returned to the MMI Fund to over \$1.1 billion.

I want to thank both the Commissioner and the Inspector General for the important work they are doing on this issue. The taxpayer should not have to pay for losses of lenders who didn't follow the rules. We also need to ensure that the terms of settlement agreements are being honored. I am concerned by recent reports that some of the banks may not be providing the relief to borrowers they committed to

under the terms of the settlement. So the work to hold lenders accountable continues.

HOME EQUITY CONVERSION MORTGAGE LOANS

While we must hold lenders accountable for not following the rules, we must also make sure that we have the right rules in place. As we discussed with the Secretary when he testified before us several weeks ago, the Home Equity Conversion Mortgage, or HECM, requires careful examination. This product can be a good option for seniors who want to stay in their homes as they get older. But the recent crisis has exposed serious flaws in the program.

And it is clear that, as currently designed, the program is not working for taxpayers, or in many cases, for borrowers. Some seniors and their families didn't fully understand the product and are now facing foreclosure. These loans have resulted in significant losses to the MMI Fund. In fact, without HECM mortgages, FHA's insurance fund would have a positive balance.

HUD has suggested steps Congress can take to strengthen the program. I know the Inspector General's Office has studied this subject and suggested improvements as well. So I look forward to a discussion on how we can work together to preserve a responsible product for people who need it, while ending the practices and policies that add unnecessary risk to borrowers and FHA's insurance fund.

OTHER AREAS OF RISK

In addition to HECM changes, HUD, its Inspector General, and the Government Accountability Office (GAO) have identified other steps that can be taken to strengthen FHA. For example, HUD has sought additional enforcement authorities to ensure that unscrupulous lenders can't continue to originate FHA insured loans. And the Inspector General has recommended changes to how HUD manages loans that experience early default.

But it is also important to recognize that many of these changes can't be made quickly, or at all, without the help of Congress. So we need to hear from both of you about what happens if Congress does not provide the necessary legislative authority to make additional program changes.

FHA OPERATIONS

We must also continue to ensure effective management of FHA's programs and operations. For many years, staffing challenges and outdated information systems have compromised effective management of FHA programs. HUD must have staff with the necessary skills to monitor its programs and understand the risks in both the market and its portfolio. In recent years, this subcommittee has provided HUD with resources to address its staffing needs, including funding for the recently established Risk Office.

Since 2010, Congress has also invested millions of dollars in upgrading FHA's information technology (IT) systems to increase its efficiency and better detect risk. The success of the FHA Transformation IT project is critical to FHA's short and long-term health. This subcommittee is closely following the management of this project, so I want to discuss its current status, as well as its future.

SEQUESTRATION

While HUD has made progress in improving its information systems and filling important positions, sequestration creates new challenges for FHA. HUD will be forced to make difficult decisions about which of its IT projects will continue to go forward and which ones will be slowed down, or even canceled. Staff will be furloughed and some positions lost through attrition may not be filled.

The broad consequences of sequestration cuts across the Government could also impact FHA. Sequestration threatens our fragile economy and housing market. The financial position of the MMI Fund benefits as the housing market and economy improve, but it will also suffer if our economy slows.

So we must continue to work for a fair and balanced solution that provides certainty to our Federal agencies and to the American people. The budget we recently passed in the Senate provides a path forward that balances responsible spending cuts with necessary investments. I look forward to working with my colleagues in both the House and Senate to enact a responsible budget compromise.

CLOSING

Ms. Galante, Mr. Montoya, both of you serve in important roles as we continue to deal with the consequences of the housing crash and think through the future

of FHA and America's housing finance system. I look forward to our discussion today.

With that, I am delighted to be joined by my colleague, Senator Collins, and will turn to her for an opening statement.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you very much, Madam Chairman. Thank you for holding this important hearing on the Federal Housing Administration and the future of the housing finance market. I join you in welcoming Commissioner Galante and Inspector General Montoya before the subcommittee this afternoon.

The administration has made several announcements regarding our housing policies and programs. Yet there is much more that must be done to stabilize the housing market and to reinvigorate private sector participation. HUD faces many challenges in balancing the goal of strengthening responsible home ownership while minimizing the financial risk to the FHA and to the taxpayer.

Eventually, FHA should play a more limited role, in my judgment, in the mortgage market and help encourage the private sector to reassert its primacy. Nevertheless, I believe there will always be some role for the FHA to play. Since its inception, FHA has provided mortgage insurance for more than 41 million single family home mortgages and 53,000 multifamily mortgages.

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 is slowly coming back, but a sustained recovery is still uncertain.

The agency's role has dramatically expanded since the beginning of this crisis. Prior to the housing collapse, FHA accounted for approximately 3 percent of the single family housing market, reaching upwards of 21 percent in the year 2010. I am pleased to hear that HUD's FHA market share continues to decline as the housing market recovers and that we're now at about 14 percent of market share.

It is, however, troubling to me that year after year, FHA is unable to meet its statutory requirement of maintaining a 2-percent capital reserve ratio. The President's fiscal year 2014 request shows that FHA anticipates drawing on its permanent indefinite budget authority with Treasury for \$943 million starting this fiscal year to hold in reserve against expected future losses. If FHA does draw funds from Treasury, it will mark the first time that it has ever needed to take this action.

While HUD has taken a number of steps since January of this year to improve the program, I am concerned about the need to draw this level of funding at the end of the fiscal year. This is attributed to the poor performance of the HECM loans due to borrowers' longevity, house prices declining over recent years, as well as a failure to pay taxes and insurance. We need to ensure that

borrowers, especially seniors, are not taken advantage of and are able to make informed decisions regarding their mortgages, both because of the impact on them, but also the impact on the fund.

PREPARED STATEMENT

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, and in doing so, we must remain mindful of the need to limit the exposure of taxpayers to additional financial losses.

I look forward to working with the chairman, the other subcommittee members, and both of you on these important issues.

Thank you.

[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 Commissioner Galante and Inspector General Montoya before our subcommittee this morning.

The Administration has made several announcements regarding existing housing programs, yet there is much more that must be done 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. Eventually, 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 41 million single-family home mortgages and 53,000 multifamily mortgages.

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 is slowly coming back, but a sustained recovery is still uncertain.

The agency's role dramatically expanded since the beginning of the housing crisis. Prior to the crisis, FHA accounted for approximately 3 percent of the single family housing market; reaching upward of 21 percent in 2010. I am glad to hear that HUD's FHA market share continues to decline as the housing market recovers, with just below 14 percent of the market share.

It is troubling that year after year, the FHA is unable to meet its statutory requirement of maintaining a 2 percent capital reserve ratio. The President's fiscal year 2014 request shows that FHA anticipates drawing on its permanent indefinite budget authority with the Department of the Treasury for \$943 million during fiscal year 2013 to hold in reserve against expected future losses. If FHA does draw funds from Treasury, it will be the first time that it has ever needed to take this action. While HUD has taken a number of steps since January of this year to improve the program, I am concerned about the need to draw this level of funding at the end of the fiscal year. This is attributed to the poor performance of the home equity conversion mortgage (HECM) loans due to borrowers' longevity, home prices declining over recent years, as well as failure to pay taxes and insurance.

We need to ensure that borrowers, especially seniors, are not taken advantage of and are able to make informed decisions regarding their mortgages.

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.

Senator MURRAY. Thank you very much.

With that, Ms. Galante, we'll begin with you.

STATEMENT OF HON. CAROL GALANTE

Ms. GALANTE. Thank you, Chairman Murray and Ranking Member Collins. I appreciate the opportunity to testify today on the fiscal year 2014 budget proposal.

Before I begin, I did want to take a moment to echo your comments and Secretary Donovan's statement in offering my condolences on the passing of Senator Lautenberg. As a Member of this body, he was a champion of preserving access to affordable housing for all Americans. I join you in mourning his passing.

I also want to thank HUD's Inspector General, David Montoya, and his entire staff for their dedication and partnership as we work to protect FHA and taxpayers.

FHA has played a significant role in lessening the severity of the financial crisis and contributing to our Nation's economic recovery, temporarily increasing its market share to ensure stability and preserve access to credit. However, playing this role during the crisis was not without an impact to our portfolio, requiring decisive action to strengthen FHA.

The Mutual Mortgage Insurance Fund is already seeing strong results from our efforts to improve lender oversight, strengthen credit policies, increase premiums, improve loss mitigation and asset management, and establish a risk management office and portfolio surveillance capability. FHA's new books of business are the strongest in agency history.

FHA SHORTFALL

However, due to loans insured during the crisis as well as stress caused by the HECM reverse mortgage program, the 2014 budget projects that FHA capital reserve will need support from the Treasury. The shortfall is estimated at \$943 million. But, as you know, the level of support from Treasury will not be known until the end of the fiscal year. Second, this amount would be added to over \$30 billion FHA already has in reserves.

The fund's performance has continued to improve, and if losses from the HECM program are excluded, our actions and the ongoing recovery would leave the capital reserve at positive \$4 billion. We look forward to working with Congress on several legislative requests that will further strengthen the fund, increasing our ability to hold lenders accountable, improving recoveries on defaulted loans, and allowing FHA greater ability to respond quickly to risks as they emerge.

One of these requests, granting FHA the explicit authority to make changes to the HECM program via mortgagee letters, is crucial. Given the challenges HECM currently faces, we must make further changes immediately, both to preserve the program and to minimize risk to the fund.

FHA has also proven to be a critical source of financing quality affordable rental homes and healthcare facilities. In fiscal year 2012, FHA supported the construction, improvement, substantial rehabilitation, or refinance of nearly 234,000 apartments and more than 91,000 beds in healthcare facilities. And while our multi-family and healthcare programs were not stressed as severely as

the single family portfolio, we have nonetheless made substantial changes in our risk management and loan review processes, including increasing premiums for the first time in 10 years, protecting these programs for the future.

For fiscal year 2014, we have requested \$30 billion in commitment authority for multifamily and healthcare programs. Furthermore, we now estimate that the \$25 billion approved for fiscal year 2013 will be insufficient to support the current level of program activity, including refinancing and strengthening our existing portfolio and providing financing for important initiatives such as the Rental Assistance Demonstration Program.

Therefore, we are requesting an additional \$5 billion in commitment authority for the remainder of the fiscal year. Without legislative action, we project that we will exhaust our current authority by mid August. In fact, this morning, I notified this subcommittee and others that as of today, we have exhausted 75 percent of our authority for the year.

Finally, our 2014 budget request continues to support transforming the way HUD does business. This means addressing both the infrastructure and processes that support our operations, ensuring that they are compatible with the 21st century financial system. Given the dynamic nature of the mortgage market, it is vital that FHA has the ability to assess and analyze current market trends, borrowers, and lender data for risks.

Through the FHA Transformation Initiative, we have made significant progress in developing and implementing a modern information technology environment. However, without dedicated and sustained funding, we will not be able to implement or maintain these improvements.

Last, another part of our continued efforts is the reorganization and consolidation of the Office of Multifamily Housing at headquarters and in our field offices. These organizational improvements are being undertaken to ensure that even in a constrained budget environment we have an effective delivery model for the future.

PREPARED STATEMENT

While the fiscal year 2014 budget is the result of many tough choices, it is also an opportunity for FHA to continue to support HUD's mission and our Nation's continuing economic recovery while effectively managing risk.

Madam Chairman, thank you for the opportunity to testify today. I look forward to your questions.

Senator MURRAY. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF HON. CAROL GALANTE

Thank you, Chairman Murray and Ranking Member Collins, for this opportunity to discuss how the Department of Housing and Urban Development's (HUD's) fiscal year 2014 budget proposal will grow our economy from the middle class out—not from the top down—while supporting the recovery in our housing market and economy.

As the President has said, housing is an important part of our economic recovery. In 2012, rising home values lifted 1.7 million families back above water and created \$1.6 trillion in equity. New home construction levels are at their highest since before the financial crisis and new home purchases are up 12 percent over last year.

The number of new foreclosure actions has been cut in half since the height of the crisis. And the Federal Housing Administration (FHA) has played a critical role in ensuring that we remain on the path to a complete recovery.

This budget provides FHA with the ability to assist HUD in meeting three goals that are critical to the Agency's mission. Using a variety of strategies, it allows us to focus on strengthening the Nation's housing market to support the economy while also protecting consumers. And, despite the challenging fiscal climate, this budget allows us to meet the need for quality, affordable rental homes across the Nation. Finally, this budget continues our efforts to transform the way HUD does business—creating a more modern, efficient, and responsive agency.

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—with mortgages sold to people who couldn't afford or understand them, while banks packaged them into complex securities on which they placed huge bets. And while this crisis was largely 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 the unprecedented challenges facing the housing market.

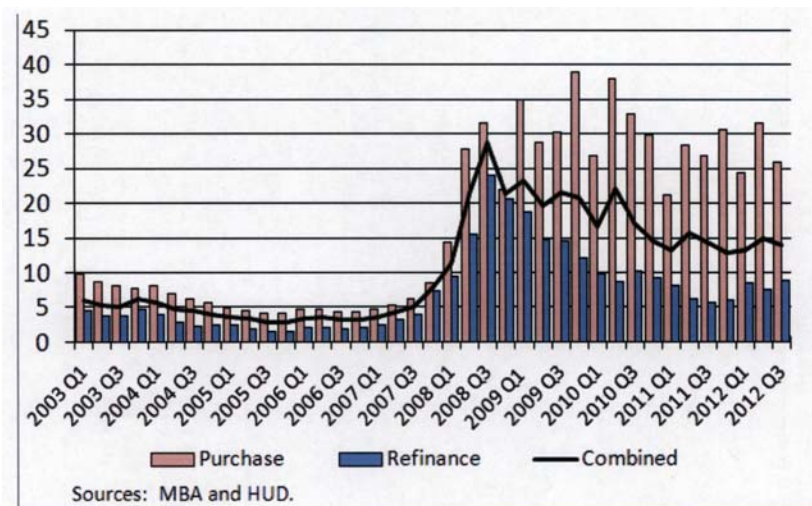
Responding to the Market Disruptions and Serving Underserved Populations

The Federal Housing Administration (FHA), along with the Government National Mortgage Association (GNMA), continues 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, and doing both in a way that minimizes risks to taxpayers.

For fiscal year 2014, HUD is requesting \$400 billion in loan commitment authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 1.2 million single-family mortgages—at a projected \$199.3 billion in loan volume for forward and reverse mortgage loans as well as loans insured under the FHA Short Refinance program for borrowers in negative equity positions. HUD is also requesting \$30 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 273,000 units in multifamily housing properties and an estimated 75,700 beds in healthcare facilities. The need for this investment is clear as FHA continues to play an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, by assuring ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers. However, FHA's expanded role is and should be temporary.

FHA's share of the single family mortgage market (purchase and refinance transactions) has gone from a low of 3.1 percent of loan originations in 2005, up to a peak of 21.1 percent in 2010, and more recently down to 13.9 percent in the 3rd quarter of 2012 (U.S. Housing Market Conditions Report, 3rd Quarter 2012). In fact, the number of FHA single family loan endorsements by loan count, has declined to levels comparable to those seen in fiscal years 2002 and 2003, when FHA's market share was lower than it is today, indicating that FHA's current market share is primarily due to a substantial decrease in the size of the total mortgage market rather than exceptionally high FHA loan volumes. As the market continues to recover and private capital returns at more normal levels, FHA's role will naturally recede and FHA has demonstrated that it is committed to policies that facilitate this return. However, during this crisis, access to FHA insured financing has been critical to bolstering the housing market and providing access to credit to creditworthy, low-wealth borrowers.

Figure 1. FHA Market Share as a Percent of Total Market



As has been true throughout its history, 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. According to the latest Home Mortgage Disclosure Act (HMDA) data, half of all African Americans who purchased a home in 2011, and 49 percent of Hispanics, did so with FHA insured financing. Seventy-eight percent of the loans insured by FHA go to first time homebuyers.

FHA Single Family Programs

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 February 2013, more than 6.4 million foreclosure prevention actions were taken—including nearly 1.7 million FHA loss mitigation and early delinquency interventions.

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. And, because we see potential for more widespread use of this product, FHA made changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to encourage lenders to offer this product more widely to homeowners with FHA-insured mortgages, and offered reduced premiums for borrowers who could benefit most from a Streamline Refinance.
- Changes to FHA's Loss Mitigation Waterfall.*—A mortgagee letter published on November 16, 2012, outlined changes to FHA's loss mitigation home retention options. One of the key elements of this update was moving FHA's Home Affordable Modification Program (HAMP) product up in FHA's loss mitigation waterfall so servicers could more quickly offer deeper payment relief to struggling FHA borrowers, resulting in an increase in the number of borrowers being able to retain their homes.
- Housing Counseling.*—In fiscal year 2014, 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 estimates that 2,650 HUD-approved counseling agencies, employing an estimated 8,000 housing counselors, will assist a total of 2.5 million renters and owners. In 2012, 2,410 HUD-approved housing counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million renters and owners. 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.

HUD's new Office of Housing Counseling has several initiatives to ensure borrowers know their rights and have access to the remedies that will allow them to stay in their homes. While HUD approved housing counselors serve all homeowners, regardless of the type of loan, effective loss mitigation for FHA borrowers also protects the Mutual Mortgage Insurance (MMI) Fund. Therefore, HUD has worked closely with interested States to determine effective ways in which funds from the National Mortgage Servicing Settlement can be used to expand housing counseling resources, resulting in more than \$300 million in settlement funds committed to housing counseling or legal services for affected borrowers. HUD-approved housing counseling agencies provided foreclosure prevention services to 774,000 families in fiscal year 2012.

In addition, FHA and the Office of Housing Counseling are exploring ways to further integrate housing counseling into the home purchase process, as well as continuing efforts around loss mitigation, offering distressed FHA borrowers additional resources with which to assess their options and make decisions appropriate to their situation.

—*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. FHA made enhancements to the program in March of last year and announced an extension to the expiration date of the program in order to increase the number of borrowers who will benefit from this initiative.

Strengthening FHA and Paving the Way for Private Capital To Return

The President's budget shows that FHA, while still under stress from legacy loans, has made significant progress and is on a sound fiscal path moving forward. Like nearly all mortgage market institutions, FHA sustained significant losses due to the precipitous fall in the housing market and home prices and is putting additional funds aside this year to cover those legacy losses. Moreover, like most other market participants, recent and future books of mortgage business are expected to bring healthy gains and perform well.

Throughout the economic crisis, as FHA faced fiscal challenges, this administration took swift and effective action to protect the FHA and the American taxpayer alike, as FHA continued to fulfill its dual mission of supporting the housing market during tough times and providing access to homeownership for underserved populations. Of the changes made since 2009, FHA's lender oversight and credit policies have yielded substantial improvements in the quality of new loans endorsed by FHA, and premium increases have priced appropriately for risk. But significant opportunity remains to reduce the impact on the fund of poorly performing legacy loans severely impacted by the recession, and to provide greater assistance for distressed borrowers as they seek to recover and find meaningful assistance in dealing with their delinquent loans. With a majority of FHA's projected losses attributable to loans insured from 2007–2009, FHA will take several additional steps to maximize recovery in the areas of loss mitigation and asset management.

Counterparty Risk Management and Lender Enforcement

One of the first things this administration did upon taking office was to take strong actions to improve FHA's monitoring and oversight of lenders. This has included substantial improvements to risk analysis systems and procedures, and policy changes to focus resources on the areas of FHA's business which pose the greatest potential risk to the MMI Fund. These efforts have resulted in lenders being withdrawn from FHA programs, improvements in lender compliance with FHA requirements, and a number of settlements with lenders and servicers for violations of FHA origination or servicing requirements.

Yet, it remains important that we continue to clarify and refine the rules of the road for FHA lenders. That is why last month FHA issued a mortgagee letter implementing a Lender Insurance (LI) Lender Indemnification Final Rule which was published in January 2012. This guidance establishes better and more consistent moni-

toring of LI lenders and establishes clearer parameters upon which HUD will require indemnification for loans originated by these institutions.

Additionally, we have been concerned of late with a number of Web-based and print advertisements that proclaim the supposed ease of obtaining an FHA-insured loan following a foreclosure. While FHA has taken a number of proactive steps in the past few years to clarify its requirements regarding lender advertising and to enforce those requirements aggressively, we determined in last year that it was necessary to address the issue of post-foreclosure advertising specifically. Therefore, on January 25, 2013 FHA issued a reminder to its industry partners that advertisements that imply that little or no qualification criteria are necessary to obtain an FHA loan are unacceptable and that FHA will not hesitate to take action within its authority to enforce its requirements related to lender advertising, including sanctions by HUD's Mortgagee Review Board and/or referral to the HUD Inspector General or the Consumer Financial Protection Bureau (CFPB).

Credit Policy

We have also worked to strengthen our credit policies for FHA borrowers. First and foremost, FHA implemented Congress's elimination of seller-funded down payment assistance programs which cost the MMI Fund more than \$15 billion in economic value. Further, we enacted increased down payment requirements for borrowers with credit scores below 580. The long-term positive impact of these two credit policy changes cannot be overstated. The 2005–2008 vintages, accounting for less than 15 percent of total originations over the last 30 years, are projected by the Actuary to contribute more than one-third of total credit losses of the fund. Loans with credit scores below 580 and/or seller-funded down payment assistance will have accounted for 44 percent of those losses. Additionally, we will continue work on finalizing regulations to reduce the amount of allowable seller concessions that increase risks to FHA arising from inflated appraisals.

In late 2012, FHA announced several additional policy changes which continue its work to strengthen credit policy, support the ongoing recovery and maintain access to mortgage financing for credit worthy borrowers while also taking steps to recede FHA's total market share. These steps include requiring manual underwriting for borrowers with credit scores below 620 and debt-to-income (DTI) ratios over 43 percent, enhancements to FHA's TOTAL Scorecard, and a proposed increase in the required down payment for borrowers seeking loans in excess of \$625,500. Taken together with all the other measures outlined above as well as those detailed in Appendix A of FHA's Annual Report to Congress, these steps will ensure that home buyers using FHA-insured financing are capable of meeting their mortgage obligations and will not put undue stress on the fund.

Increased Revenue

In addition to the improvements made to the quality of new endorsements, we have also made the difficult choice to increase mortgage insurance premiums for FHA-insured loans multiple times in the past 4 years. Since 2009, FHA has increased premiums five times—the most recent increase effective April 1, 2013. Combined, the premium increases made since 2009 have yielded more than \$10 billion in additional economic value for the fund to date. These increases have not been undertaken lightly, and FHA has been careful to balance changes to pricing to improve the outlook of the fund with its countercyclical role of providing liquidity and access to credit in the midst of the recent crisis and ongoing recovery.

Additionally, effective beginning with case numbers assigned on June 3, 2013, FHA will cease a policy of canceling required mortgage insurance premiums (MIPs) on loans for which the outstanding principal balance reaches less than 78 percent of the original principal balance. Under that policy, FHA remained responsible for insuring 100 percent of the unpaid principal balance of a loan for the entire life of the loan, a period often extending far beyond the cessation of MIP payments. As written, the timing of MIP cancellation was directly tied to the contract mortgage rate, not to the actual loan loan-to-value ratio (LTV). That policy, which was reversed in a mortgagee letter published on January 31, 2013, was put in place at a time when it was assumed that home price values would not decline, but today we know that LTV measured by appraised value in a declining market can mean that actual LTVs are far higher than amortized mortgage LTV, resulting in higher losses for FHA on defaulted loans. Analyses conducted by FHA's Office of Risk Management projects lost revenue of approximately \$10 billion in the 2010–2012 vintages as a result of the current cancellation policy. The same analyses also suggest that 10–12 percent of all claims losses will occur after MIP cancellation. Therefore, beginning in June, FHA plans to once again collect premiums based upon the unpaid principal balance of FHA loans for the entire period during which they are in-

sured, permitting FHA to retain significant revenue that is currently being forfeited prematurely.

Loss Mitigation and Asset Management

The Actuary projects nearly \$60 billion in claims costs for FHA from seriously delinquent loans that will go to claim by the end of fiscal year 2014, largely arising from loans insured between 2007 and 2009. As a result, reducing the severity of losses derived from these loans will exert a demonstrable positive impact to Fund performance over the next few years. Throughout the past fiscal year, FHA has been executing on an overall asset management strategy aimed at ramping up real estate owned (REO) alternatives. REO alternatives (primarily short sales) comprised about 15–20 percent of total dispositions since 2010, yielding average loss severities about 20 percent lower than REO. In recent months, as noted, FHA also unveiled its Distressed Asset Stabilization Program (DASP), another REO alternative that improves Fund performance. These and other actions have had a measurable effect, as loss severities have already fallen by 9 percent in the last year. A reduction in loss severities will further improve fund performance. And, compared to March 2012, serious delinquencies are down in March 2013, with non-seasonally adjusted serious delinquencies dropping below 9 percent for the first time in over a year, showing that FHA and the market have made some progress in clearing the backlog of seriously delinquent loans previously withheld from a final disposition.

FHA expects further gains on this front through a number of initiatives:

—*Streamlining of the FHA Short-Sale Policy.*—Although FHA is deeply committed to providing loss mitigation alternatives to borrowers which permit them to retain their homes, home retention is simply not an option for some borrowers. For these borrowers, pre-foreclosure sales (short-sales) offer an opportunity to transition out of their homes. This enables both FHA and the borrowers to avoid the costs and damages of the foreclosure process. This month, FHA will introduce a streamlined pre-foreclosure sale policy which removes certain barriers for borrowers in obtaining a short sale on an FHA-insured mortgage. This change is expected to increase the number of defaulted loans that end in short sales rather than in foreclosures. Because losses from short-sales are substantially lower than from the traditional FHA REO process, the shift of greater numbers of distressed homeowners to short-sale dispositions rather than foreclosures is anticipated to yield better results for the MMI Fund while allowing distressed borrowers to start anew without having to go through the difficult and costly foreclosure process.

—*Claim Without Conveyance Pilot Program.*—FHA is expanding a pilot in which properties secured by non-performing FHA-insured loans are offered for sale by the lender who has completed the foreclosure process. At a reserve price slightly below the outstanding unpaid principal balance of the loan, the properties are sold to third party purchasers without ever being conveyed to FHA. This method of disposing of these properties is expected to yield lower losses for the MMI Fund than selling them through FHA's normal REO disposition process, as carrying costs associated with preserving, managing, and marketing an REO property are eliminated.

—*Proactive Strategies To Further Improve Recoveries.*— In addition to the policy and programmatic changes outlined above, FHA will also take several innovative and proactive steps to increase utilization of loss mitigation options and reduce unnecessary asset disposition losses. First, beginning in 2013, FHA will launch a large-scale proactive marketing campaign to promote modification and short-sale strategies for delinquent borrowers. This effort is expected to increase utilization of these programs, which will permit more borrowers to become aware of and take advantage of these opportunities, while reducing foreclosures and decreasing associated losses for FHA. In addition, FHA will also pursue more creative strategies to dispose of REO properties in geographies where traditional asset disposition methods yield net negative recoveries for FHA. This approach is anticipated to both save money for FHA on unnecessary losses as well as contribute to community stabilization initiatives in cities hit hard by the recession.

Due to these changes, resulting in higher quality of loans and reduced loss severities, and combined with the large volume of current loans, we project FHA will generate approximately \$18 billion in receipts during fiscal year 2013. This includes \$3 billion generated from the new premium increase that went into effect April 1, 2013, and reversal of a policy that caused FHA to forfeit collection of MIP after a loan reached 78 percent of its original principal balance. Further, as a result of these same changes, the fiscal year 2014 budget projects FHA receipts of almost \$13 billion, even as FHA market share and loan volume continue to be reduced.

Fiscal Year 2013 MMI Fund Budget Re-Estimate

The President's budget forecasts that the FHA MMI Fund, which provides the fiscal capital to support FHA's single family and reverse mortgage guarantees, will use \$943 million of its mandatory appropriation authority to supplement its reserves at the end of fiscal year 2013. The MMI Fund currently has approximately \$32 billion in cash available to pay claims, so this is not a cash on hand problem; it is one of setting aside the right size of loan loss reserves. The \$943 million figure is based on an annual re-estimate of the reserves FHA will need to hold as of September 30, 2013, for the payment of expected losses over the next 30 years on its portfolio of guaranteed loans as of last September, based upon Federal Credit Reform Act (FCRA) scoring. This re-estimate is done as part of the development of the President's budget.

The potential for a mandatory appropriation to the MMI Fund is largely due to the existing reverse mortgage (Home Equity Conversion Mortgage or HECM) portfolio. This product, particularly as it has been structured to date, is sensitive to borrower longevity, home prices, and economic conditions. Lower than anticipated home price appreciation substantially affected the expected performance of the portfolio. Further, changes to the ways in which borrowers utilize the HECM product have shifted the risk profile of the program.

Originally designed to be used like an annuity, in recent years market circumstances and lender preferences have shifted greater numbers of borrowers to take full draws via the Fixed Rate Standard product. Thus, borrowers are taking all of the funds available to them up front and often do not have the resources necessary in later years to pay property taxes and insurance, thereby triggering a default on the loan. Due to these changes in usage and performance, the budget estimates that the use of the HECM program results in a negative value of \$5.248 billion and a disproportionately negative impact to the fund.

FHA will take immediate action under its limited authorities to better align the HECM program with its objective of enabling seniors to age-in-place. These changes, which will significantly impact consumer use of the program, will protect FHA from losses and reduce the likelihood of borrower defaults.

In administrative guidance dated January 30, 2013, FHA consolidated the Fixed Rate Standard program with the Fixed Rate HECM Saver product, which will result in a reduction of the maximum amount of funds available to a HECM borrower.

Additionally, in an effort to reduce losses associated with the conveyance and disposition of properties mortgaged with an HECM, FHA will issue new incentives for estate executors of HECM borrowers to dispose of properties themselves rather than conveying them to HUD. Executors are permitted to either sell such properties or convey them to HUD. Reversing the historical trend, over the past few years, larger numbers of executors have been choosing to convey these properties to FHA rather than sell them, adding costs and reducing recoveries for FHA. By incentivizing the sale of properties by executors, FHA is able to avoid property management, maintenance, and marketing costs associated with the REO disposition process, thereby reducing losses to the fund on these properties.

Whether there will be an actual need for a mandatory appropriation from the Treasury General Fund to the MMI fund will not be determined until September 2013, and will be based on FHA's realized revenues and any other developments through the end of the fiscal year. Notably, any mandatory appropriation to FHA would not involve approval from Congress, as all Federal loan programs have this standing authority. As we consider this potential mandatory appropriation, we must also acknowledge that FHA played a crucial, countercyclical role in bringing the housing market from the brink of collapse to a place where it is positive and growing again. This task did not come without its stresses which we are experiencing today. Nevertheless, FHA will remain vigilant in implementing the policies and practices discussed here to protect the fund.

Legislative Requests To Support FHA Single Family Programs

Since 2010, Congress has moved in important ways to strengthen and protect FHA. Indeed, were it not for the flexibility granted by Congress to FHA in setting mortgage insurance premiums, the current economic value of the MMI Fund would be more than \$10 billion lower than it is today. And the work Congress has done to establish FHA's first ever Office of Risk Management has been instrumental to our improved ability to identify risks in FHA programs and take action to mitigate them. We appreciate the commitment to making FHA stronger and more secure over the long term.

We have several legislative requests that, when coupled with actions taken previously and the support provided by this budget, will allow us to further strengthen the FHA fund and the larger housing market. The proposals outlined below will en-

hance FHA's ability to hold lenders accountable for non-compliance with FHA policy, allow FHA to increase recoveries on defaulted loans, and provide greater flexibility for FHA to make changes to policies and procedures as emerging needs and trends are identified. As a result, FHA will better be able to avoid unnecessary losses before they occur.

—*Indemnification Authority for Direct Endorsement Lenders.*—This provision, which FHA has been seeking since 2010, would allow FHA to seek indemnification from Direct Endorsement lenders, which represent 70 percent of all FHA approved lenders. Currently FHA only has authority to require indemnification for lenders with Lender Insurance (LI) approval. In granting this authority, FHA will be able to obtain indemnification from all of its approved lenders for loans that do not comply with its guidelines.

—*Authority To Terminate Origination and Underwriting Approval.*—This legislation would give FHA enhanced ability to review lender performance and, if a lender is found to have an excessive rate of early defaults or claims, would provide greater flexibility in terminating the approval of the lender to originate or underwrite single family mortgages for FHA insurance. FHA has been seeking this authority since 2010.

—*Revised Compare Ratio Requirement.*—This provision would revise the statute governing the Credit Watch Termination Initiative to provide greater flexibility in establishing the metric by which FHA compares lender performance so that it more effectively captures the true performance of a lender during all market conditions, minimizing further poor performance by FHA lenders while reducing uncertainty for them. Specifically, this legislation would allow the Secretary to compare the rate of early defaults and claims for insured single family mortgage loans originated or underwritten by a lender with those same rates for other lenders on any basis the Secretary determines appropriate, such as geographic area, varying underwriting standards, or populations served. Further, the provision would permit the Secretary to implement such comparisons via regulations, notice, or mortgagee letter. This will allow FHA to tailor the compare ratio so it provides meaningful comparisons of lenders in varying market conditions, providing greater clarity for lenders and a more refined understanding of their performance for FHA.

—*Authority To Transfer Servicing.*—In order to facilitate more effective loss mitigation, this change would give FHA the authority to require any of the following actions when a servicer is at or below a servicer tier ranking score (TRS) of III, or when the Secretary deems the action necessary to protect the interests of the MMI Fund: (1) transfer servicing from the current servicer to a specialty servicer designated by FHA; (2) require a servicer to enter into a sub-servicing arrangement with an entity identified by FHA; and/or (3) require a servicer to engage a third-party contractor to assist in some aspect of loss mitigation (e.g. borrower outreach). Such authority would permit FHA to better avoid losses arising from poor servicing of FHA-insured loans, yielding better results for both borrowers and FHA.

—*Authority To Structurally Change the HECM Program Through Mortgagee Letter.*—While the HECM product is an important tool to permit seniors to age in place, the challenges outlined previously necessitate immediate changes to the program. To make such changes in a timely fashion and preserve the program for seniors, FHA is seeking statutory authority to temporarily make changes to the HECM program via mortgagee letter while formal rule making is simultaneously in progress. Specifically, FHA would make the following changes via mortgagee letter:

- Limit the amount of the allowable draw;
- Mandate the use of escrow accounts to ensure continued and timely payment of property charges including taxes and insurance, and;
- Require the use of a financial assessment as part of the loan origination process to ensure the appropriateness of HECM products for potential borrowers.

These changes will enable FHA to ensure that new HECM originations meet the needs of the target population and reduce risks to the MMI Fund. Absent ability to make these structural changes, later this fiscal year, FHA will have to take more dramatic action to ensure that new HECM originations are actuarially sound.

HECM Non-Borrowing Spouse.—The intent of the HECM program is to provide an age-in-place option for senior citizen homeowners. However, from an operational standpoint, those homeowners must be party to the reverse mortgage for HUD to manage an actuarially sound program. Currently, if a mortgagor dies and no other HECM mortgagor continues to reside in the home, the loan becomes due and payable. The Department believes that in order to benefit from the HECM loan, a party must be eligible under the terms of the HECM, including the requirement that one

be aged 62 or older and also have legal claim to the property. In order to clarify the responsibilities of non-borrowing spouses under the HECM program, HUD is proposing a general provision in the fiscal year 2014 budget that amends the National Housing Act to clarify that the HECM becomes due and payable upon the death of the mortgagor spouse in order to avoid future misunderstanding. The proposed amendment would make clear that HUD's longstanding regulations—in effect since the beginning of the program—comport with Congress' original intent.

GOAL 2: MEET THE NEED FOR QUALITY, AFFORDABLE RENTAL HOMES AND HEALTHCARE FACILITIES

At a time when more than one-third of all American families rent their homes and over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in severely inadequate conditions, it is more important than ever to provide a sufficient supply of affordable rental homes for families of modest means—particularly since, in many communities, affordable rental housing does not exist without public support. Compounded by an aging population and increasing healthcare costs, strong support for quality, accessible healthcare is also an essential component in achieving the Department's mission of strong, sustainable, inclusive communities and quality, affordable housing and services for all Americans.

Office of Multifamily Housing Programs

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. The Office of Multifamily Housing is beginning to realize savings in salaries and expenses as a result of several major initiatives.

—*Breaking Ground.*—Completed in mid-fiscal year 2012, Breaking Ground was an initiative in Multifamily Housing Development to reduce backlogs, improve timeframes, and create an early warning system that allows for more effective risk management by creating extensive tools to monitor and access credit for multifamily insured loans. These tools include a stronger credit review of borrowers; an early warning system that targets loans early in the process that do not meet FHA underwriting criteria; and a dashboard monitoring tool to track accountability of field offices; and establishment of a queue in order to more efficiently manage workload and provide greater transparency to lenders.

Adopting this approach has produced positive results. Offices that had large application backlogs prior to Breaking Ground have reported processing efficiency improvements, methodically clearing out older applications—the number of applications in process for over 90 days dropped from 191 to 50 in just 7 months. In addition, offices that began Breaking Ground without a large backlog have begun to meet aggressive application processing time cycles. The Department will continue to track these metrics and looks forward to reporting on these results.

—*Sustaining Our Investments.*—The Sustaining Our Investments initiative, which was fully implemented last month, has resulted in an overhaul of the processes used to manage the portfolio of the Office of Multifamily Asset Management. The initiative focuses on Risk Based Management—allowing project managers at both the headquarters and field level to focus day-to-day operations on managing at-risk loans in the portfolio. Risk-based reports keyed on financial and physical risk triggers direct project managers to act early on potential problems with particular assets. The first step in this initiative was to complete a full ranking of FHA's entire multifamily market rate portfolio to better assess and address potential risk factors. The ranking of the non-insured portfolio is now underway.

—*Loan Committee.*—FHA Multifamily has also implemented a new loan committee approval process, aligning Hub and Program Center commitment authority and practice to ensure consistency in underwriting throughout the regional offices, as well as to provide a platform to share best practices. Loan committees at the hub and national levels provide oversight for high-risk transactions in the multifamily insurance program, based on loan size and a project's number of units. Loan committee approval processes are standard practice in the lending community and are an important tool to prudently manage credit risks and ensure the integrity and stability of the General and Special Risk Insurance (GI/SRI) insurance fund. The Loan Committee has also proven to be an effective tool for increasing communication and a more consistent FHA platform.

Adjusting Premiums To Properly Price for Risk

Given the unprecedented increase in the number and dollar volume of loans insured under the GI/SRI, particularly with respect to “market rate¹” loans, in the President’s fiscal year 2013 budget proposal, the Department announced proposed premium increases for programs in the GI/SRI. Implemented on October 1, 2012, this was the first premium increase in 10 years for these programs.

GI/SRI funds provide financing for the FHA multifamily and healthcare loan guarantee programs and several very small specialized loan products. This account also continues to hold a sizable portfolio of single family loan guarantees (HECM, condominium, and rehabilitation loans) insured prior to fiscal year 2009 when responsibility for new lending under these programs was transferred to the Mutual Mortgage Insurance Fund.

In contrast, premiums for single family programs situated in FHA Mutual Mortgage Insurance (MMI Fund) have been increased four times since 2010. As with the premium increases for MMI programs, higher premiums for market rate loans originated under the GI/SRI funds ensure that FHA products are priced appropriately to compensate for FHA’s risk, consistent with current market conditions. This premium change should also have the indirect benefit of encouraging the return of private capital to the Nation’s mortgage markets.

Going forward, FHA will continue to examine its business models and practices, with an eye toward continuing to improve its risk management capabilities and operational efficiencies while expediting processing and approval timelines.

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. Through its mortgage insurance programs, over just the past 18 months, FHA facilitated lending of \$4 billion for new construction and substantial rehabilitation of over 40,000 apartment units. FHA insured over \$11 billion of mortgages that supported improvements and moderate rehabilitation of more than 150,000 units of multifamily housing over the same period.

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. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on Federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and State entities to keep up with needed life-cycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately \$26 billion, or \$23,365 per unit. Available funding is vastly insufficient to meet accruing needs of approximately \$3 billion per year. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory loses an average of 10,000 units annually through demolitions or dispositions. Through FHA and other programs, HUD is taking steps to address this shrinking inventory.

Rental Assistance Demonstration

In addition to the public housing stock, the Rental Assistance Demonstration (RAD) program targets certain “at-risk” HUD legacy programs. The 24,000 units assisted under section 8 Moderate Rehabilitation (MR) are limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties. The approximately 21,000 units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) have no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expire, we can no longer depend on these projects to be available as affordable housing assets.

Conversion to long-term section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term section 8 rental assistance allows for State and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process public housing conversions of assistance without additional subsidy, HUD requests \$10 million in fiscal year 2014 for the incremental subsidy costs of converting assistance under RAD for very limited purposes. Such funding will be

¹ Generally, market rate housing covers a range of rental housing opportunities. In the FHA portfolio, market rate housing is generally affordable to those at approximately 80 percent of area median income.

targeted only to public housing projects that are: (1) not feasible to convert at current funding levels; and (2) located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts. The Department estimates that the \$10 million in incremental subsidies will support the conversion and redevelopment of approximately 3,300 public housing units that would not otherwise be feasible to convert and sufficiently stabilize over the long-term, while helping to increase private investment in the targeted projects and surrounding neighborhoods.

In addition to the funding request, each of the legislative requests in the 2014 budget for RAD are designed to allow for maximum participation by those public housing agencies (PHAs) and owners whose current funding levels are sufficient for conversion. In the first component of RAD, an increase in the 60,000 unit cap to 150,000 units, and the exclusion of section 8 MR properties from the cap will both allow for a greater portion of both the public housing and MR stock that can convert at no cost to the Federal Government to participate in the demonstration. It is expected that approximately 40 percent of the transactions conducted through the RAD program will leverage FHA insured financing, actually contributing to the generation of offsetting negative subsidy receipts for the Government.

Legislative Requests To Support Multifamily Housing

Nearly a third of the Nation's renters, more than 20 million households, live in small, unsubsidized apartment buildings. These 5- to 49-unit properties tend to be owned by small businesses and are typically more affordable to low and moderate income families. These properties are at risk of continued disinvestment as small building owners are less likely than other multifamily property owners to be able to secure financing for repairs and improvements. Small properties are less likely to have mortgage financing and just 14 percent of all fiscal year 2010 FHA-insured properties were for projects with fewer than 50 units.

The fiscal year 2014 budget includes a legislative provision to support small building finance, and to strengthen the Risk Share program as a rental finance tool, seeks congressional authority for Ginnie Mae to guarantee securities containing FHA multifamily Risk Share loans, thereby increasing liquidity and decreasing cost of capital. This proposal would apply to both State and local Housing Finance Agency Risk Share lenders under section 542(c) and new Risk Share lenders under section 542(b). The proposal would also amend section 542(b) of the statute to allow for flexibility in how affordability is determined in order to make it a more effective tool to recapitalize existing naturally affordable 5–49 unit rental properties.

Section 542(c) HFA Risk Share.—The extension of Ginnie Mae securitization to the 542(c) Risk Share program would improve HFAs' ability to finance affordable rental housing that serves some of the poorest and most vulnerable Americans, without requiring any Federal budgetary appropriation.

Section 542(b) Risk Share and Small Building Finance.—The 542(b) Risk Share authorizing statute provides HUD with significant flexibility to take on risk-share partners. HUD plans to partner with mission-driven lenders to make loans on small multifamily rental buildings on a 50/50 risk share basis with HUD. In order for this program to work for small multifamily lending, two legislative changes are required. Access to Ginnie Mae guarantees for small building risk-share lenders combined with flexibility on the statutorily imposed risk share affordability standard which otherwise requires ongoing rent and income restrictions will allow us to use this tool to meet the needs of these smaller properties and prevent disinvestment in a valuable portion of our Nation's housing stock.

Office of Healthcare Programs

FHA's healthcare programs for hospitals and residential care facilities (nursing homes, assisted living facilities, and board and care homes) have helped private lenders fill the gap left by shrinking conventional finance resources. Since 1934, over 4,000 residential care facility mortgage insurance commitments were issued in all 50 States under the section 232 program. In 1968, enabling legislation amending the National Housing Act was signed into law, creating the section 242 program for hospital facilities. Since the section 242 program's inception, over 400 mortgage insurance commitments have been issued for hospitals in 42 States and Puerto Rico. And while the economy seems to be rebounding and with it, sources of private capital, we continue to expect high levels of mortgage insurance activity for fiscal year 2014 due in large part to refinancing activity as healthcare facilities take advantage of current low interest rates. Furthermore, following implementation of a final rule in 2013, hospitals can now obtain FHA-insured refinancing loans. As of December 31, 2012, the FHA's portfolio of healthcare loan guarantees had an unpaid principal balance of \$28.3 billion on 2,900 loans.

Evolution of FHA Healthcare Programs—Balancing Risk and Improving Processes

This Administration, in continuing to improve the program has brought in positive risk management changes to both balance risk and improve processes. Given the unprecedented increase in the number and dollar volume of loans insured under GI-SRI, in fiscal year 2013, premium increases for FHA's General Insurance and Special Risk Insurance healthcare programs were instituted to increase the stability of the insurance fund. With the premium increases, FHA healthcare loans are 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.

Proactive Asset Management.—In FHA's Office of Healthcare Programs, weekly loan committees are held to review and approve loan submissions and to monitor healthcare industry trends and risks. By implementing proactive asset management using early intervention monitoring tools, the Office of Healthcare Programs succeeded in maintaining claim rates of less than 1 percent in both healthcare facility mortgage insurance programs in fiscal year 2012.

LEAN Business Process Reengineering.—LEAN Business Process Reengineering has also played an integral part in streamlining business operations within FHA's healthcare programs. Despite volume increases, LEAN processing improvements reduced loan processing times while increasing risk management efforts. Revised program requirements and documents were established to enhance accountability for borrowers, operators, and lenders. To further manage risk in the healthcare portfolio, in areas of large risk concentrations, such as insuring portfolios of multiple healthcare facilities, reviews are conducted at both the corporate and individual loan levels. In the residential care facility mortgage insurance program, implementation of a Master Lease Structure to cross-collateralize properties not only works to improve the overall risk profile of FHA's healthcare portfolio, but ultimately reduces claims.

The Office of Healthcare Programs is in ongoing collaboration with the Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS), and State public health departments to support efforts to ensure quality of care for the most vulnerable populations. Also, by incorporating State survey inspection results, cost reports, and data from other Federal and State agencies into FHA's underwriting and asset management procedures, the shared utilization of data and cross-collaboration has been instrumental in keeping healthcare claim rates low within FHA.

Legislative Request To Support Healthcare Programs

As part of the efforts of FHA's healthcare programs to strengthen communities by addressing specialized financing needs, HUD is seeking passage of the language in the Transportation, Housing and Urban Development, and Related Agencies (THUD) appropriations bill to permit rural Critical Access Hospitals to be eligible for FHA insurance. Before their eligibility expired in 2011, 29 Critical Access Hospitals received FHA-insured loans, with results that were positive, both in terms of loan performance and the jobs created by hospital construction projects. Also, quality of life improved in their communities; these hospitals by definition are geographically remote from other hospitals, and they provide not only emergency, outpatient, and acute inpatient services but also nursing and rehabilitation services that avoid the need for the elderly and recuperating patients to leave the community for care.

We appreciate the Congress' longstanding support for Critical Access Hospitals by amending section 242 to permit these important facilities to be eligible for FHA insurance, and hope that this language will be approved to allow Critical Access Hospitals to continue to be eligible for FHA insurance.

GOAL 3: TRANSFORM THE WAY HUD DOES BUSINESS

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a Government that's leaner, smarter, and more transparent. 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 a HUD and an FHA that can meet those challenges. As such, we remain committed to improving the way HUD does business. HUD remains at the forefront of the Federal response to the national mortgage crisis, economic recovery, Hurricane Sandy 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 2014 budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

Strategically Investing in Our Staff While Improving Efficiencies and Processes

HUD's greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well. This is why HUD is providing its employees training and leadership development opportunities. HUD is also in the process of simplifying and streamlining programs and reforming its information technology, human resources, procurement, and other internal support functions to provide flexibility to managers and better service to HUD customers.

Multifamily Office Reorganization and Consolidation

Beginning in fiscal year 2013, the Office of Multifamily Housing will begin reorganizing its headquarters structure and consolidating field office operations. Phased in over 2½ years, this plan will increase efficiency and consistency, modernize our services, and once fully implemented has the potential to save an estimated \$40 million to \$45 million in annual costs.

By taking proactive steps, the Office of Multifamily Housing Programs will better serve customers and stakeholders, by operating more efficiently and consistently and improving risk management, all in an era where HUD and agencies across the Government are working diligently to determine how best to do more with less. This transformation builds upon the success of Breaking Ground and Sustaining Our Investments through four initiatives:

- Launching More Routine and Effective Workload Sharing Across the Country.*—By more equitably distributing workloads in the areas of Production and Asset Management, Multifamily Housing will be able to reduce unevenly distributed pressure on staff and reduce customer wait times and the application backlog. A workload sharing pilot is already in process throughout the country, receiving positive feedback from customers and staff.
- Introducing Risk-Based Processing and Underwriters in the Office of Multifamily Production.*—In order to increase processing efficiencies, improving customer service and more effectively manage risk, FHA Multifamily will segment and process applications according to their risk profile and complexity, assigning an underwriter to oversee the review of the application from start to finish, drawing in technical experts as needed.
- Creating Specialist Support in the Office of Multifamily Asset Management.*—The newly created positions of Troubled Asset Specialist and Account Executives will allow Multifamily to assign the most experienced staff to focus on risky, complex or troubled assets, ensuring that the most skilled staff is engaged to manage risk to the portfolio. Other Account Executives with less expertise will focus on non-troubled portfolio while building the expertise and skill sets to manage more complex transactions.
- Streamlining Organizational Structures.*—In headquarters, FHA Multifamily will reduce the number of offices by merging the Office of Housing Assistance and Grants Administration and the Office of Housing Assistance Contract Administration Oversight into other existing headquarters offices. A dedicated Associate Deputy Assistant Secretary role will be created to support the field while leadership also examines other offices for ways to streamline and reduce duplication of efforts. In the field, 17 hubs will be consolidated into 5—and the total number of field offices with Multifamily presence will decline from 50 to 10. Affected employees will have the ability to relocate, accept a buy-out, or take early retirement.

Upgrading the Department's Information Technology Infrastructure

In fiscal year 2014, HUD is requesting \$285 million to support and modernize its information technology (IT) infrastructure. This request includes \$45 million for the development, modernization, and enhancement of key outdated systems; \$116 million for the operations and maintenance of our current systems; and \$124 million to complete the transition to our new IT infrastructure system, HUDNET. Department-wide efforts will focus on transitioning the department to a modern, sustainable IT infrastructure, and to continue the development of a modern financial management system that will improve HUD's ability to measure, track, and report on program costs and efficacy, and transitioning the current FHA systems to a modern platform. These steps are integral to the build the FHA systems and tools needed to manage risk.

FHA in particular expects to expand its portfolio evaluation tool capacity to get an “early look” at where the value of the MMI fund is trending, and to incorporate new business policies or products when/where needed. HUD has begun to decommission legacy FHA applications and will continue this through the fiscal year 2014 request, freeing up those IT dollars for reinvestment. These changes will allow HUD to deliver services and manage its multi-billion dollar programs faster, more accurately and using better information for analysis. These funds are crucial to complement HUD’s transformation efforts, providing resources for maintaining and improving Department-wide information technology systems.

CONCLUSION

Madam Chairman, the HUD budget reflects the Administration’s recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the Nation’s middle class, including providing ladders of economic opportunity for all Americans. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

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, and Healthcare Programs, are ensuring more Americans have the opportunity to realize or maintain the economic security of the middle class. Our focus on transforming the way we do business will ensure that we can continue to remain a relevant and effective support to the housing market—one that helps build the economy from the middle class out and ensures that we create opportunity for everyone, everywhere. Thank you.

Senator MURRAY. Mr. Montoya.

SUMMARY STATEMENT OF HON. DAVID A. MONTOYA

Mr. MONTOYA. Thank you, Senator. Chairman Murray, Ranking Member Collins, I am David Montoya, the Inspector General for the Department of Housing and Urban Development. We join you in remembering Senator Lautenberg’s contributions to the United States.

I want to take the opportunity to thank you for inviting us to discuss issues on FHA and also to thank the Commissioner for her collaborative efforts with my office over the last 1½ years that I’ve been there and some of the changes that we’ve been looking to make with them.

FHA is an important spoke in the Nation’s housing industry, as FHA-insured mortgages finance approximately one-fourth of all home purchases in the United States. For this reason, my office has been aggressive in its oversight of the FHA program. In fact, over the years, my office has consistently expressed concerns about the level of oversight and risk taken on by FHA and the effect this has had on its financial health.

PROPOSED RULEMAKING REQUIREMENTS

Unfortunately, and for a number of reasons, FHA has been slow to respond to many of our recommendations. One reason is FHA’s requirement for proposed rulemaking. This process can take years to finish and delays FHA’s ability to make regulatory changes or respond quickly to market conditions and financial forces. Another reason for the slowness is a reluctance, at times, to adopt our recommendations because of FHA’s concern over the impact changes would have on its market share and how such changes would affect the industry.

One notable example dates back to 1999 regarding recommendations my office made back then to discontinue the use of seller-

funded downpayment assistance. It took almost 9 years for FHA to change this practice, and that inaction reverberates today as these loans are expected to cost the Mutual Mortgage Insurance Fund over \$15 billion.

In another example, the Office of Inspector General testified in 2009 about FHA taking on new risks, such as the expansion of FHA's HECM program that you just mentioned. This product has disproportionately and negatively impacted the MMI Fund, and the President's budget has assigned a negative value of approximately \$5.2 billion to the HECM portfolio for 2013. Overall, FHA estimates that it will need to use just under \$1 billion of its appropriation authority to supplement its reserves, largely due to the poor performance of the HECM portfolio.

It remains that the fund has failed to maintain a capital ratio of 2 percent for the past 4 years and each year has seen a further decline in the fund's economic value, which has now fallen to a negative \$16.3 billion. Based on current actuarial projections, the capital ratio will now not reach the 2 percent level until 2017, which would represent 8 years continually below the 2 percent threshold mandated by Congress.

REAL ESTATE-OWNED PROPERTIES

In addition to unprecedented levels of claims, approximately \$67 billion in just the last 4 years, FHA can expect to see a continuing influx of claims for the foreseeable future. FHA's reported default rate on seriously delinquent loans as of January 2013 stood at approximately 9.5 percent. Based on our analysis of FHA data, the total unpaid balance on FHA's single family loans in default now exceeds \$100 billion.

HUD also continues to face challenges in managing its inventory of real estate-owned (REO) properties. HUD's oversight will be critical to ensure that returns on property sales are maximized, thereby reducing further losses to the fund. FHA's losses on REO property sales exceeded \$9 billion in 2012.

Another significant concern we continue to express is FHA's ability to perform required financial management functions on legacy systems that are at least 15 to 30 years old. FHA needs to enhance its integrated insurance and financial systems. Unfortunately, FHA's ability to replace the antiquated infrastructure on which many FHA single family applications reside has been delayed.

While FHA has taken various measures to restore the financial health of the fund, we think more can be done with adjustments to their actuarial modeling and in the area of risk management and lender oversight. With regard to lender oversight, my office continues to conduct reviews that have shown high percentages of loans containing not only significant deficiencies, but material incurable violations of HUD underwriting requirements and standards that expose the fund to an unacceptable level of risk and claims that FHA never agreed to take on under the insurance program.

In conclusion, we remain concerned over the lack of flexibility that would allow FHA to respond to market changes and to our recommendations in a more timely way. FHA's competing mandate to continue its role in restoring the housing market, ensuring the

availability of mortgage credit, and continued lender participation in the FHA program should heighten these concerns for policy makers.

My office is strongly committed to working with the Department and the Congress to ensure that FHA remains the viable and strong program it was intended to be.

PREPARED STATEMENT

This concludes my testimony. Again, thank you for allowing me to speak to you today. I look forward to answering questions.
[The statement follows:]

PREPARED STATEMENT OF HON. DAVID A. MONTOYA

Chairman Murray, Ranking Member Collins, and members of the subcommittee, I am David A. Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to discuss the oversight of the Department that my office conducts and current issues relating to the Federal Housing Administration (FHA).

As part of the Department's primary mission to create strong, sustainable, inclusive communities and quality, affordable homes for all, HUD also assists families in obtaining housing by providing FHA mortgage insurance. HUD is an important spoke in the Nation's housing industry in that FHA-insured mortgages finance approximately one-fourth of all home purchases in the United States.

Since becoming the Inspector General, I have had an ongoing dialogue with FHA Commissioner Carol Galante on the challenges that the Department and FHA face and the work my office has done in its oversight capacity.

In a very coordinated effort, the Department and Office of Inspector General (OIG) worked collaboratively to achieve a historic result with last year's national mortgage settlement of more than \$25 billion—the largest consumer financial protection settlement in U.S. history. We are building on that success and have undertaken an initiative to review fraudulent loan originations made by some of the Nation's largest mortgage companies in the FHA program. These endeavors showcase the accomplishments that we are engaged in, not only with the Department, but also working closely with the U.S. Department of Justice (DOJ).

While I continue to support our activities relating to these reviews, I also endeavor to manage my limited resources to provide proper oversight of the many other programs and operations within the Department and its role in responding to Hurricane Sandy and other disasters. The following testimony highlights some of the more pressing issues facing the Department's administration of the FHA program, particularly in light of its increased role in the marketplace.

A HISTORY OF OIG CONCERNS AND FHA'S SLOW RESPONSE

HUD OIG has consistently expressed its concerns over the years about the level of oversight and risk taken on by FHA and the effect on its financial health. Unfortunately and for a number of reasons, FHA has been slow to respond to many of our recommendations and has only recently finally implemented some of them. For example, it has been noted that while seller-funded downpayment-assisted loans have been prohibited since the end of 2008, OIG has expressed its concern to FHA over the negative impact of seller-funded downpayments on FHA as far back as 1999. Loans using seller-funded downpayment assistance have proven to place a substantial stress on FHA's Mutual Mortgage Insurance (MMI) Fund.

OIG completed its first comprehensive analysis of seller-funded downpayments in March 2000, looking in depth at this and the associated program risks, as these loans increasingly began to consume a larger share of FHA loan originations. We concluded that HUD allowed nonprofit organizations to operate downpayment assistance programs that circumvented FHA requirements. The downpayment loan transactions did not meet the intent of FHA requirements in that the downpayment assistance was not a true gift from the nonprofit; sellers raised the sales price of properties to cover the cost of the seller-funded downpayment assistance, causing buyers to finance higher loan amounts; and default rates for buyers receiving downpayment assistance from nonprofit organizations were significantly higher than for other FHA loans. We recommended back then that HUD implement a proposed rule to eliminate seller-funded nonprofit downpayment programs.

Our long-term concerns and findings were later validated by several FHA-commissioned studies and by a U.S. Government Accounting Office (GAO) study in 2005, 6 years after we first raised concerns. However, FHA still resisted implementing our recommendation, in part because the change would have required the Department to go through the rulemaking process and there were concerns about whether FHA would prevail. More significantly, however, was FHA's concern at the time about the impact such a change would have on its market share. By 2006, the concentration of nonprofit downpayment assistance had approached 25 percent of FHA's new business portfolio, including purchase and refinance loans. FHA did not act to end the practice until 2007, and then legal challenges caused further delay. Ultimately, legislation to disallow the practice was enacted in 2008, too late to prevent the looming losses we are now seeing.

The legacy of this delayed inaction reverberates today as seller-funded downpayment-assisted loans continue to place significant stress on the MMI Fund. According to HUD's fiscal year 2012 report on the financial status of the fund, these loans account for only 4 percent of the outstanding portfolio but are 13 percent of all seriously delinquent loans. Over the life of the loans, seller-funded downpayment loans are expected to cost the MMI Fund more than \$15 billion.

Similarly, in 2007, FHA was pressing for "reform" legislation that, among other things, would have raised loan limits and allowed FHA to insure loans with no borrower downpayment requirement. At the time, FHA's share of the mortgage market had fallen to less than 4 percent of the total market and less than 2 percent of the total dollars for mortgages originated in the United States. Indeed, with the ready availability of conventional subprime financing, FHA was perceived as becoming increasingly irrelevant, and the primary concern at FHA was to find ways to increase its market share. It focused more on marketing FHA loans than on instituting sound risk management and lender oversight.

HUD OIG testified in March 2007 and expressed its concern as to whether FHA was headed in the same direction as the subprime market with its seemingly continued deregulation and introduction of "riskier" products as part of its proposed reform. FHA seemed to have lost sight of the fact that since its inception, it has played a cyclical role in the housing market, sometimes gaining market share in times when it was needed to bolster the market and sometimes losing share when the conventional marketplace was addressing the constituency that FHA has always focused on: low- to moderate-income and first-time potential home buyers. However, this always remained true; whether in the conventional or Government mortgage programs, no loans should have been given if the purchaser was unable to pay back the loan.

Finally, in April 2009, when the effects of the economic crisis and collapse of the housing market were becoming more and more ominous, OIG testified before this subcommittee and expressed its concern about the impact of FHA's precedence-setting increased market share and HUD's ability to manage the increased workload with its limited and stagnant resources. FHA was also taking on new risk that needed to be managed. As an example, the Housing and Economic Recovery Act of 2008 authorized changes to FHA's Home Equity Conversion Mortgage (HECM) program that enabled more seniors to tap into their home's equity and obtain higher payouts. This office, at the time, raised concerns about HUD's ability to provide proper oversight as there was a critical need for more resources for FHA. Those resources were needed to:

- enhance its information technology (IT) systems;
- increase its personnel to meet escalating processing requirements;
- increase its training of personnel to maintain a workforce with the necessary skills to deal with the responsibility of this new portfolio;
- oversee the many contractors it maintained; and
- increase its oversight of all critical front-end issues, including such important areas as the appraisal, lender approval, and underwriting processes.

The HECM program was originally projected to be profitable for FHA but has turned out to be a substantial drain on the insurance fund. I will discuss the HECM program in more detail later in my testimony. While Secretary Donovan and FHA Commissioner Galante are proactive and supportive of OIG and its recommendations, I have to note, as described above, that FHA's reluctance over the years to more quickly deal with its looming issues has taken a toll, a toll we are only now beginning to understand. FHA has been trying to improve its financial position in recent years with legislative and regulatory proposals. But as we said years ago at the beginning of the subprime crisis, movement in the Department is more like turning an ocean liner than driving a fast boat through the tempests and currents of an ever-changing mortgage market.

A recent example of FHA's apparent inability to quickly react to changing conditions can be seen in its efforts to require lenders to indemnify HUD for serious and material violations of FHA origination requirements and for fraud and misrepresentation in connection with the origination of FHA loans. Historically, HUD has sought such indemnifications through agreement with the lenders. HUD already possesses the statutory authority to require such indemnifications for lenders participating in its Lender Insurance program and issued a proposed rule in October 2010 to, among other things, provide additional guidance on HUD's regulations implementing this authority. The rule was not finalized until January 2012, and the mortgagee letter to implement the change in policy was not issued until a month ago on April 10. According to the mortgagee letter, the revised indemnification policy is effective for all loans insured by Lender Insurance program lenders on or after that date. Thus, 2½ years have passed since the rule was proposed, and it remains to be seen whether this will be an effective tool in recovering losses since FHA's homeownership centers have yet to implement the change. To further exacerbate this situation, since 2010, HUD has been seeking statutory authority to require indemnifications from the remaining 70 percent of its direct endorsement lenders that do not participate in the Lender Insurance program.

Based on OIG's experience in dealing with FHA over the years, we remain concerned about HUD's resolve in taking the necessary actions going forward to protect the fund. HUD is often hesitant to take strong but needed actions against lenders because of its competing mandate to continue FHA's role in restoring the housing market and ensure the availability of mortgage credit and continued lender participation in the FHA program. Nevertheless, OIG has generally been supportive of FHA's initiatives to raise premiums and better manage its risk, including the establishment of its Office of Risk Management. Similarly, we strongly agree with HUD's position that FHA needs legislative changes to afford it greater flexibility to make changes to its policies and procedures as history has shown that it needs to be able to react more quickly to market changes and avoid losses that can accrue during a lengthy rulemaking process. In this light, my office is developing its own set of recommended legislative initiatives that we believe can further strengthen FHA's ability to mitigate risk and recover losses to the insurance fund and enhance OIG's ability to address fraud, waste, and abuse in the program. We will be vetting these proposals with FHA and the appropriate committees.

FINANCIAL HEALTH OF THE FHA MUTUAL MORTGAGE INSURANCE FUND

FHA's MMI Fund is the largest of its four mortgage insurance funds. The fund consists of a system of accounts used to manage FHA's single-family mortgage insurance programs. The Cranston-Gonzalez National Affordable Housing Act of 1990 mandated that the MMI Fund maintain a capital ratio of 2 percent from October 1, 2000, forward. The capital ratio is defined as the ratio of the fund's economic value to its insurance in force. The economic value essentially represents capital that exceeds the amount needed to cover anticipated losses. Clearly, when establishing this mandate, Congress voiced its concerns that some sort of cushion was important to maintain. The capital ratio has been below this required 2 percent level for the past 4 years, and each year has seen a further decline in the ratio to the point at which, based on the latest actuarial study in November of last year, the ratio has fallen below zero to negative 1.44 percent, which represents a negative economic value of \$16.3 billion. The economic value of the forward portfolio was estimated at negative \$13.5 billion and the HECM portfolio at negative \$2.8 billion. These economic values represent capital reserve ratios of negative 1.28 percent and negative 3.58 percent, respectively.

Over the last several years, FHA has increased premiums and taken other steps to restore the financial health of the MMI Fund. Nevertheless, based upon FHA's deteriorating financial condition, in February 2013, GAO included FHA concerns in its "high risk" section relating to "Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance." It was not FHA itself that was deemed a high risk but, rather, FHA as part of the larger high-risk concern over the Federal role in housing finance.

While we acknowledge the Department's actions to address the MMI Fund's finances, my office remains concerned about whether the actions are enough to make up for the losses FHA has sustained and to reach the required 2 percent level anytime in the near future. For example, FHA is now using credit scores as part of the eligibility requirements for FHA loans. As of October 2010, borrowers with credit scores below 500 are no longer eligible for FHA insurance, and the maximum loan-to-value ratio for borrowers with credit scores between 500 and 579 is 90 percent. At the time these changes were being proposed, we expressed our overall support

but also took the position that the changes did not go far enough and would likely have minimal impact on the MMI Fund in terms of bringing in additional premiums. While FHA enacted increased downpayment requirements for borrowers with credit scores below 580, we noted that loans for borrowers with credit scores below 580 were less than 1 percent of new activity. Moreover, the 580 credit score threshold is well into what is traditionally considered subprime territory in the conventional marketplace. A higher downpayment requirement at the appropriate credit score level would force borrowers to have more personal stake and financial exposure, which we believe would have a more meaningful impact in protecting the fund due to the larger volume of loans at higher credit score levels. The more a borrower is personally financially invested in a loan, the more unlikely he or she will be willing to give up on the investment.

As shown in the chart below from data we obtained from HUD's systems as of April 12, 2013, FHA has experienced high levels of claims in recent years compared with levels seen before the financial crisis. For purposes of illustration, the following chart reflects total FHA insurance claims from calendar years 2005 through 2008, the year that the current financial crisis began.

FHA INSURANCE CLAIMS

Year	Forward mortgage claims		Home equity conversion mortgage claims		Less mitigation claims		Total	
	Claims	Amount paid	Claims	Amount paid	Claims	Amount paid	Claims	Amount paid
2005	68,455	\$6,562,000,000	1,187	\$87,000,000	75,407	\$119,000,000	145,049	\$6,768,000,000
2006	57,243	5,595,000,000	1,514	143,000,000	82,365	170,000,000	141,122	5,908,000,000
2007	54,556	5,629,000,000	2,257	256,000,000	84,758	150,000,000	141,571	6,035,000,000
2008	62,440	6,981,000,000	3,149	381,000,000	104,092	204,000,000	169,681	7,566,000,000
Total 2005 to 2008	242,694	24,767,000,000	8,107	867,000,000	346,622	643,000,000	597,423	26,277,000,000
2009	83,881	10,163,000,000	4,652	567,000,000	131,115	268,000,000	219,648	10,998,000,000
2010	119,830	15,654,000,000	5,681	559,000,000	208,876	411,000,000	334,387	16,624,000,000
2011	118,475	15,144,000,000	8,684	928,000,000	173,163	563,000,000	300,322	16,635,000,000
2012	155,266	20,245,000,000	14,207	1,432,000,000	142,551	660,000,000	312,024	22,337,000,000
Total 2009 to 2012	477,452	61,206,000,000	33,224	3,486,000,000	655,705	1,902,000,000	1,166,381	66,594,000,000
Grand total 2005 to 2012	720,146	85,973,000,000	41,331	4,353,000,000	1,002,327	2,545,000,000	1,763,804	92,871,000,000

As reflected in the charts above, the amount FHA paid in claims during the last 4 years was about 2½ times the amount paid during the preceding 4 years (\$66.6 billion vs. \$26.3 billion). The total amount of claim payments rose substantially in 2009 and has continued to increase.

Apart from the obvious financial implications, this situation creates a challenge for FHA, since the Prompt Payment Act requires HUD to pay the claim on a defaulted FHA-insured mortgage within 30 days and only then can it go back to the lender that underwrote the loan to recover losses incurred if it finds that the loan was ineligible for insurance. Thirty days is an insufficient amount of time for HUD to determine whether a loan was ineligible for insurance due to fraud or misrepresentation in the loan origination process. The result of this requirement places HUD in a “pay and chase” situation as our past audits have expressed concern over HUD’s exposure when paying claims on loans that were not qualified for insurance. In addition, FHA has been resistant and slow in implementing a rigorous claim review process and to recover losses from lenders instead relying primarily on a strategy to focus efforts on loans that had not reached claim status. FHA only recently agreed with recommendations we made as far back as 2006 and again in 2011 to review all loans for which a claim was paid within the first 24 months, claims we define as high-risk claims. This matter takes on even greater importance in light of the significant amount of claims projected to be filed by lenders in the coming months and HUD’s current limited capacity for reviewing submitted claims.

In addition to the unprecedented levels of claims noted above, FHA can expect to see a continuing influx of claims in the foreseeable future. The latest FHA-reported default rate (seriously delinquent loans) as of January 2013 stood at 9.49 percent. By comparison, the default rate in September 2008 was 6.91 percent. Based on our analysis of FHA data, the total unpaid balance of FHA single-family loans in default now exceeds \$100 billion.

FHA LOANS IN DEFAULT (3 MONTHS OR MORE DELINQUENT) AS OF MARCH 31, 2013

Loans	Unpaid balance
724,173	\$103,324,000,000

While FHA has taken a position that its current losses are primarily from loans made from 2007 to 2009, it continues to project that the current and future years’ books of business will be profitable and make up for these past years’ losses. However, what we have seen in the past 4 years is a troubling trend, whereby the point at which the MMI Fund is expected to reach its mandated capital level is pushed farther into the future. In the fiscal year 2009 independent actuarial study, it was predicted that by the end of fiscal year 2011, the MMI Fund’s capital ratio would be 1.74 percent and that the MMI Fund would meet the 2 percent mandate sometime during fiscal year 2012. In the following 3 years, that forecast has changed dramatically as the capital ratio has continued to move in the wrong direction and is now negative. In addition, we now have concerns about the fiscal year 2010 and 2011 books of business as their profitability appears to be lower than projected and budgeted, as indicated and supported in the fiscal year 2014 Federal Credit Supplement to the Budget, although not as substantially different as the reestimates from the earlier years of 2007 to 2009.

Based on current projections, the capital ratio will not reach the 2 percent level until 2017, marking 8 years below the 2 percent threshold. Moreover, these estimates are heavily influenced by the pace at which housing prices will recover. Any additional slowdown in the housing market will increase FHA losses and further delay FHA’s ability to meet its statutorily mandated 2 percent requirement. We continue to work with FHA to ensure that it is instituting sound risk management and lender oversight practices to avoid further exposure of the MMI Fund to losses.

My office also continues to stress that the FHA actuarial model is complicated and difficult to audit, use, and employ for risk management and strategic planning purposes. The model inhibits frequent updates as well as the ability to understand changes in specific programs or risk categories. Ultimately, its current design and objective are to be in statutory compliance and do not promote FHA’s timely use of policy corrections based on products, cohorts, or risk classifications for current or interim benchmarking decisions. While we have recommended modeling at the mid-term or quarterly, which we believe would provide FHA a better basis for timely policy corrections and assessing the actuarial value of the MMI Fund, the model cannot be easily changed because it is proprietary and owned by the actuarial firm. I continue to have discussions with the FHA Commissioner regarding these issues.

With regard to one recent change in the modeling, the 2012 actuarial study applied a stochastic method to estimate the net present value of future cash flows. This was done to a large extent because of recommendations by OIG and GAO, recommendations that had been made for some years before 2012.

HOME EQUITY CONVERSION MORTGAGE PROGRAM

The FHA HECM program is the only Government-insured reverse mortgage program. The HECM program guarantees that the lender will meet its payment obligations to the homeowner, limits the borrower's loan origination costs, and insures full repayment of the loan balance to the lender up to the maximum claim amount; that is, the lesser of the appraised value at origination or the national HECM loan limit of \$625,500. HECM insurance endorsements in fiscal year 2012 were down by 25 percent from fiscal year 2011 levels to 54,591. Fiscal year 2012 marks the third consecutive year in which HECM volume has declined. Yet, with a declining HECM demand, FHA asserts that the fiscal year 2014 budget request for \$943 million is largely due to the existing HECM portfolio. This product, particularly as it has been structured to date, is sensitive to home prices and economic conditions. This condition has resulted in a negative value of \$5.248 billion and a disproportionately negative impact to the MMI Fund from the HECM program.

FHA is proposing, either through the granting of the legislative authority described below or via the much longer rule-making process, the following measures:

- Limiting the draw at origination to mandatory obligations;
- Addressing the issue of non-borrowing spouse language in the fiscal year 2015 budget;
- Performing a financial assessment of borrowers as a basis for loan approval and determining the suitability of various HECM products to protect consumers from acquiring loans not fit for their situation; and
- Establishing a tax and insurance set-aside to ensure that sufficient equity or an annuity is available to pay taxes and insurance on the mortgaged property so that defaults resulting from nonpayment of taxes and insurance can be avoided.

While OIG supports these proposed changes, it continues to raise concerns about FHA's belated actions. Since 2008, OIG has been proposing similar changes to the HECM program based on results of its audit and investigative work. The four OIG reports discussed below identified problems with reporting borrowers' deaths, payment of required property taxes and insurance, reliability of financial data, and compliance with the HECM residency requirement.

A 2008 audit found that HUD did not ensure that FHA lenders reported HECM borrowers' deaths in accordance with Federal requirements. HUD could not be assured that FHA lenders appropriately met HUD's time requirement for initiating the foreclosure process or recording the deeds-in-lieu to take possession of the property, which impacted the amount of the lender's insurance claims.

In an internal audit issued in August 2010, we determined that HUD had not tracked almost 13,000 defaulted HECM loans with maximum claim amounts of potentially more than \$2.5 billion. The audit found that an increasing number of borrowers had not paid required taxes or homeowner's insurance premiums, thus placing the loan in default. We noted that HUD granted foreclosure deferrals routinely on these defaulted loans but it had no formal procedures to do so. HUD's informal foreclosure deferral policy had a negative effect on the universe of HECM loans and loan servicers. After canceling its informal policy, HUD did not issue guidance to servicers advising them of what action to take regarding defaulted loans. Thus, servicers continued to service the loan and paid the taxes and insurance for the borrowers without notifying HUD. As a result, four servicers contacted were holding almost 13,000 defaulted loans with a maximum claim amount of more than \$2.5 billion, and two of the four servicers said they were awaiting HUD guidance on how to handle them.

The servicers had also paid approximately \$35 million in taxes and insurance on these loans. HUD was unable to identify the deferred or defaulted loans in its system and did not track the number of borrowers who were unable to pay their taxes or insurance premiums. Since unreported defaulted loans were only obtained from 4 of a total of 16 HECM servicers nationwide, more defaulted loans may have existed. Since HUD could not track these loans, it did not know the potential claim amount in the event of foreclosure of about 7,700 loans of which HUD was aware and about 13,000 loans of which it was not aware and could lose an additional estimated \$1.4 billion upon the sale of the properties.

In June 2011, we issued a report on HECM loan payments made after the death of the borrower. Our results indicated a few instances in which unscheduled ad-

vance payments were made after the death of the borrower, which resulted in claims paid by HUD, although we did not believe this was a systemic problem. In most cases, we found that scheduled payments were not actually made after the death of the borrower but were incorrectly recorded in HUD's Insurance Accounting Collection System by the lenders. More noteworthy was the fact that loan proceeds from the sale of property and claims paid by HUD were not credited to the HECM loan balances in a timely manner, resulting in inaccurate information being reported to HUD, causing unreliable financial data to be used by HUD. This evaluation also noted instances in which HECM loan servicing files contained indications of suspicious or potentially fraudulent transactions; however, there was no evidence that such matters were referred to HUD for further action. Lender officials stated that HUD's guidance in this area was too broad and that specific fraud indicators should be included in any future guidance.

Finally, in an internal audit issued in December 2012, we found that HUD policies did not always ensure that borrowers complied with program residency requirements under the HECM program. A review of 174 borrowers indicated that 37, or 21 percent, were not living in the property associated with the loan as required by the residency requirement to participate in the HECM program. These 37 loans were ineligible and should have been declared in default and due and payable to reduce the potential risk of loss of about \$525,000 to HUD's insurance fund. These 37 loans had already been advanced \$5.8 million, with the \$525,000 remaining to be disbursed, although the borrowers were not living in the home.

In addition to the above-mentioned audits and reviews, the OIG Office of Investigation completed a number of criminal cases in which the criminals used elderly straw buyers to obtain HECM loans.

Due to the negative value of the MMI Fund, OIG plans to work closely with FHA in obtaining its proposed changes to the HECM program and in furthering other OIG-recommended changes to the program.

OIG EFFORTS TO RECOVER LOSSES AND ADDRESS FRAUD AGAINST THE MMI FUND

As noted earlier, FHA has taken various measures to restore the financial health of the MMI Fund. OIG has also played an active role in this regard by aggressively pursuing and recovering losses from lenders that were engaged in questionable and often fraudulent underwriting of FHA loans. In the early part of 2011, OIG, in partnership with HUD and DOJ, initiated a number of mortgage lender reviews, whereby statistical samples of claims, defaults, and all other loans were drawn to determine the accuracy and due diligence of the underwriters of FHA loans by a number of the Nation's largest lenders. The reviews completed to date have resulted in a total of \$1.24 billion in civil settlements for alleged violations of the False Claims Act and for failure to fully comply with FHA requirements. Some of these settlements involved some of America's largest lending institutions.

The loan-level reviews OIG has been conducting and which have resulted in large civil fraud settlements with major lenders are on the order of what we would expect HUD to be doing for itself as an inherent program responsibility. Examples of these activities include (1) reviews of seriously delinquent loans before claim submission and terminated loans upon claim submission for origination and misrepresentations and (2) claim mitigation in which claims are reviewed for documentation issues, violations of servicing requirements, and potential collateral-related defects. These examples are normal and expected practices in the private mortgage insurance sector. This issue relates to earlier comments about FHA's resistance to and slowness in implementing a rigorous claims review process and going back to the lenders to recover losses instead relying primarily on a strategy to focus efforts on loans that had not reached claim status.

OIG continues to aggressively review lender origination and underwriting practices as part of its ongoing oversight efforts in a housing market that for years was reckless about lending money. Imprudent business practices became a pervasive problem, and now those loans underwritten during that time are having a significant negative impact on the MMI Fund. The result has been a dramatic increase in mortgage delinquencies, defaults, and foreclosures. Too often lenders ignored FHA requirements to get a loan approved. Borrowers were sold unsustainable mortgages, sometimes unsuspectingly and sometimes with their full knowledge, which encouraged widespread indifference to the ability of many consumers to repay their loans. Some lenders thought they could make money on a loan even if the consumer could not pay back that loan, by either banking on rising housing prices or passing along the mortgage into the secondary market.

Adding to this problem was a 100 percent insurance guarantee by FHA, which created no real financial exposure to these losses on the part of the lender and in

some cases, no real incentive to comply with the requirements of participation. The practices of many lenders were not just the result of poor procedures but involved real infractions of good business stewardship and proper behavior when participating in the FHA program. A failure by FHA to create a strong and meaningful oversight atmosphere creates an environment that virtually invites the abuses we have seen in our lender reviews. Quite simply, lenders are responsible for complying with all applicable HUD regulations and in turn are protected against default by FHA's insurance program for doing so. To provide some context, mortgage fraud is second only to healthcare fraud on DOJ's list of investigative and prosecution priorities.

Indeed, our reviews have shown high percentages of loans containing significant deficiencies, loans that clearly should not have been underwritten. Our reviews look for major noncompliance and a failure to follow the rules that have long been established. We are not looking at close-call interpretations of underwriting but wholesale abandonment of the core requirements that leads to huge default and claim rates for FHA-insured mortgages.

By way of example, my office is currently reviewing one lender's claims to FHA using a statistically representative sample of all claims it made in a given period. The statistical sample pool was 85 loans. While these results are preliminary, 91 percent of those loans had significant deficiencies, 77 of 85 loans. Of those loans with significant deficiencies, 87 percent, or 67 loans, had material, incurable violations of HUD underwriting requirements and standards. These violations were essentially incurable by the lender and exposed the FHA insurance fund to an unacceptable level of risk and claims that it did not agree to take on under the insurance program.

In another ongoing example, we conducted a review of a statistically representative sample of claims at another lender. Again, the statistical sample pool was 85 loans. Again citing preliminary results, the percentage of those loans that had significant deficiencies was 100 percent. Of those 85 loans, 78 loans (92 percent) had material, incurable violations of HUD underwriting requirements and standards. We expanded our review to defaults for this lender using a statistically representative sample, which resulted in a sample pool of 110 loans. Our preliminary review found that every one of those loans—110 of 110 (100 percent)—had significant deficiencies. Of those 110 loans, 95 (86 percent) had material, incurable violations of HUD underwriting requirements and standards that also exposed the FHA insurance fund to an unacceptable level of risk and claims that it did not agree to take on under the insurance program.

To be clear, we are not talking about minor deficiencies. These reviews are exposing violations of HUD's underwriting requirements and standards, which constitute substantive material violations. Therefore, the underwriter's certifications to HUD are false, and those loans can form the basis of a False Claims Act case. The types of substantive material violations that we are uncovering amount to violating fundamental requirements of insuring a loan, which include failing to document a borrower's income and employment, failing to evaluate all recurring debt obligations that FHA requires an underwriter to consider, and failing to verify that the borrowers possess the necessary funds to close the loan.

It is OIG's contention that if lenders follow a well-established quality control plan, exercise due diligence and good industry practices, follow required procedures, and submit documented conforming loans based on a reasonable good faith determination of a consumer's ability to repay the loan, their lending behavior does not have to be unduly constrained nor should they overly restrict making responsible loans.

INVENTORY OF FORECLOSED-UPON SINGLE-FAMILY PROPERTIES

In prior years, we have reported on various concerns relating to HUD's procurement and contract management, including HUD's IT infrastructure contracts and HUD's transition to the third generation of its management and marketing contracts that are used to manage and dispose of its extensive inventory of foreclosed-upon single-family properties, known as real estate-owned (REO) properties. HUD continues to be challenged by its overreliance on contractors in general and its ability to allocate sufficient resources to adequately oversee its contractor workforce. Since taking this position, I have made it a priority to take a closer look at the Department's procurement and contract management processes to ensure that waste, fraud, or mismanagement can be identified at its earliest occasion.

HUD's inventory of REO properties had increased dramatically from about 45,700 properties in March 2010 to nearly 69,000 at the end of March 2011. The inventory declined after HUD restructured its management and marketing contracts and as of January 2013, stood at about 39,000. While the decline from the historically high

levels of 2 years ago is a positive trend, the percentage loss on the sale of these properties remains high but has begun to decline. Still, during fiscal year 2012, losses averaged about 62 percent of HUD's acquisition cost. In contrast, HUD's average loss during 2007 was about 40 percent. HUD's oversight of these management and marketing contractors will be critical to ensure that returns on property sales are maximized, thereby reducing further losses to the FHA insurance fund. During fiscal year 2012 alone, FHA's losses on REO property sales exceeded \$9.2 billion.

We recently completed an audit of HUD's oversight of its REO Management and Marketing program to determine whether HUD's policies and procedures provided for efficient and effective oversight of asset managers and field service managers under the program. We determined that HUD did not have adequate procedures in place to ensure consistent and adequate enforcement of asset and field service manager contracts. Specifically, (1) list prices were not always reduced according to the marketing plans, (2) bids were approved that did not meet HUD's flexible threshold, (3) bids were rejected that met the marketing plan thresholds, (4) bids that met applicable thresholds were not always counteroffered or forwarded to the government technical representative for approval, and (5) properties were not assigned to field service managers based on performance even when HUD identified performance issues.

FINANCIAL MANAGEMENT SYSTEMS

Since fiscal year 1991, OIG has annually reported on the Department's lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. We continue to report that HUD's financial management systems have not substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996, which encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. This situation could negatively impact HUD's ability to perform required financial management functions and efficiently manage financial operations of the agency, notably FHA, which could translate to lost opportunities for achieving mission goals and improving mission performance.

In August 2009, FHA completed the Information Technology Strategy and Improvement Plan, which identified FHA's priorities for IT transformation. The plan identified 25 initiatives to address specific FHA lines of business needs. Initiatives were prioritized, with the top five being single-family related.

To date, FHA has completed a few of the goals but not all due to a lack of funding. FHA is working on acquiring risk management tools but has only made substantive progress with its initial objective. During our upcoming audit of FHA's fiscal year 2013 financial statements, we will be reviewing FHA's progress in implementing this plan.

The plan also called for FHA to create a program management office to facilitate coordination and communication, track and report progress, provide support to managers, and support organizational change management activities. This office was put into place almost immediately after the funding became available and is being led by a long-term IT staffer.

Since fiscal year 2009, the FHA Transformation Initiative's focus has been on improving its counterparty management by automating the certification processes and acquiring risk management tools to monitor lender activity. In conjunction with these development activities, FHA has procured the IT infrastructure needed for its planned improvements to multifamily underwriting and single-family insurance program support.

Our biggest remaining IT concern is FHA's ability to replace the antiquated infrastructure on which many FHA single-family applications reside in a timely manner. For example, FHA's general ledger is an Oracle system, which has to interface with multiple older COBOL systems. None of the older legacy COBOL systems have received sufficient funding to be replaced, yet they are expensive to maintain. Due to a lack of funding, interfaces and the related systems are still in place. While there may have been some programming changes, we understand that these were basically patches or temporary fixes to implement specific policy changes.

Overall, it appears that funding constraints have reduced the FHA Information System Transformation project to a continuation of high-level planning without a defined timetable to complete the new application systems and to phase out and deactivate the current outdated systems. These delays bring about another concern: the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside while the Transformation Initiative is underway. Workloads have dramatically increased and are processing on systems that are 15 to 30

years old. These legacy systems must be maintained to effectively support the current market conditions and volume of activity. However, the use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized in a timely manner, it will become increasingly difficult and expensive to maintain operations, make legislatively required system modifications, and maintain interfaces to other IT systems.

RECENT OIG INVESTIGATIVE AND AUDIT RESULTS

As mentioned earlier, HUD OIG conducts criminal investigations involving allegations of fraud against HUD's programs, including theft, embezzlement, and false statements by program participants and recipients. The investigations may be generated from leads provided by HUD program staff, the mortgage industry, and other sources and may be conducted jointly with Federal, State, and local law enforcement agencies. Our long-term investigative experience in the area of mortgage fraud schemes has given us proficiency and extensive knowledge to address these issues. Many "traditional" fraud schemes continue to affect FHA, such as appraisal fraud, identity theft, loan origination fraud, rescue and foreclosure fraud, and fraud in the HECM program.

The following represent some examples of recent investigations:

- A former mortgage company loan officer was sentenced to 54 months incarceration and 3 years supervised release and was ordered to pay more than \$9.2 million in restitution to FHA. He conspired with others to create and submit false and fraudulent FHA mortgage loan applications and accompanying documents to a lender on behalf of unqualified borrowers. He created false pay stubs, Federal tax forms, verification of employment forms, explanation letters, and other documents to ensure that otherwise unqualified borrowers could obtain FHA-insured loans. He enticed borrowers to obtain an FHA mortgage by paying them an incentive of up to \$20,000 per loan. More than 75 FHA loans were approved using this false information with more than 31 claims identified. The loss to FHA was estimated at \$6.5 million. The mortgage company was terminated as an FHA-approved lender, and the loan officer and others were suspended pending debarment action. Our investigation is continuing.
- A former senior vice president and loan officer, a former senior vice president of residential lending, a former underwriter, and a former loan processor pled guilty to conspiracy to submit false statements in loan applications and submitting false statements in loan applications to FHA. The defendants were involved in originating and approving FHA-insured loans and conventional loans that contained fraudulent information. The case involved approximately 1,900 FHA loans. To date, FHA has incurred losses in excess of \$36 million after paying claims on and disposing of 234 foreclosed-upon properties. An additional 393 loans, with an unpaid balance in excess of \$92 million, have been identified as delinquent or in various stages of the foreclosure process. The bank was closed by the Federal Deposit Insurance Corporation and is no longer in business. The above-noted defendants have been recommended for suspension and debarment action, and our investigation continues.
- Two former principals of a HUD-approved mortgage company pled guilty to one count of racketeering following their indictment in June 2011. The defendants were involved in a complex scheme to defraud FHA through a series of false statements on at least 65 FHA loans totaling in excess of \$10 million. The fraudulent acts included the use of straw purchasers, phony employers, bogus bank statements and pay stubs, forged college transcripts, counterfeit court documents, and phony downpayment gifts. Additionally, the defendants profited from the scheme by recording junior mortgages that were payable to business entities or associates from the loan proceeds. The mortgage company's FHA approval was terminated, and the company's principals were suspended pending their debarment.

OIG's Joint Civil Fraud Division conducts reviews of FHA-approved lenders. The reviews continue to disclose serious deficiencies in the originating and underwriting of FHA mortgages. As noted earlier, many of these reviews were conducted in support of our efforts to recover losses. These reviews and our audit work focus on areas in which HUD can improve its oversight and management of its single-family mortgage insurance programs. For example, as noted earlier, OIG reviewed the foreclosure practices for five of the largest FHA mortgage servicers (Ally Financial, Incorporated; Bank of America; CitiMortgage; JPMorgan Chase; and Wells Fargo Bank) due to reported allegations made in the fall of 2010 that national mortgage servicing lenders were engaged in widespread questionable foreclosure practices involving the use of foreclosure "mills" and a practice known as "robosigning."

In September 2012, we summarized the results of the five reviews, which were used by DOJ and 49 State attorneys general to negotiate a settlement with the five lenders totaling \$25 billion. The Federal settlement payment amount of more than \$684 million would be used for (1) losses incurred to FHA's capital reserve account and the Veterans Housing Benefit Program Fund or as otherwise directed by the U.S. Department of Veterans Affairs and the U.S. Department of Agriculture's Rural Housing Service and (2) the resolution of qui tam actions.

As result of this work, OIG recommended that HUD:

- determine the changes needed to FHA's servicing and foreclosure policies based on the consent judgments and ensure that the servicers incorporate the necessary changes into their procedures for servicing FHA-insured loans;
- ensure that the servicers establish or implement adequate procedures and controls to address the control deficiencies cited in the five issued memorandums, including but not limited to the withholding of claims for insurance benefits and the retention of appropriate legal documentation supporting the appropriateness of the foreclosure for all FHA-insured properties for the life of the loans; and
- pursue appropriate administrative sanctions against attorneys who may have violated professional obligations related to the foreclosure of FHA-insured properties.

Finally, the Department continues to face challenges in ensuring that its single-family programs benefit eligible participants and do not pay improper claims. In a recent audit of FHA's Preforeclosure Sale Program, OIG identified that, based on a statistical projection FHA paid an estimated \$1.06 billion in claims for 11,693 preforeclosure (short) sales that did not meet the criteria for participation in the program. This condition occurred because HUD did not have adequate controls to enforce the program requirements and requirements were not well written. Specifically, FHA relied entirely on the lenders in approving borrowers for the program and did not provide lenders with detailed instructions for reviewing borrower assets. As a result, the FHA insurance fund may have taken unnecessary losses while borrowers, who may otherwise have been able to sustain their obligations, were inappropriately relieved of their debt using FHA insurance fund reserves. FHA has agreed that existing program policy and lender execution against that policy are inconsistent. In response to our recommendations to improve alignment and ensure that the long-term interest of the FHA insurance fund are met, FHA is working toward (1) introducing a streamlined program approval policy based on loan characteristics and a borrower credit profile and (2) specifying income documentation requirements for the income deficit test that must be met for borrowers who do not meet the streamlined requirements.

CONCLUSION

The Department's role has greatly increased, while staffing has decreased, over the last decade as it has had to deal with unanticipated disasters and economic crises in addition to its other missions, which have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. The Department can do more to address the internal control and program weaknesses in FHA. My office is strongly committed to working with the Department and Congress to ensure that these important programs operate efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future. I look forward to working with the Department and this subcommittee to accomplish some of these goals.

Senator MURRAY. Thank you very much, both of you.

MUTUAL MORTGAGE INSURANCE FUND

Commissioner Galante, let me start with you. The budget states that \$943 million may be needed to cover losses in FHA's MMI Fund in fiscal year 2013. This follows on the most recent actuarial report showing that the capital reserve account is expected to go negative.

Can you explain the process HUD goes through to come up with these estimates, including any changes to this year's model?

Ms. GALANTE. Certainly. Thank you, Chairman, for the question. To be clear, FHA goes through two different processes. The independent actuarial that is done and was released in November 2012

looks at the 30-year projections of what is necessary for projected losses under the fund under economic conditions that they are projecting through independent indices.

The President's budget takes a look at the same kinds of conditions, but uses their own analysis of interest rates, house prices, and what-not in terms of how the projection of the budget re-estimate is made. So they're similar processes, but they're two different processes.

With respect to the actuarial, I would just say we made a number of changes, or the actuarial made a number of changes this year, including going to what's called stochastic modeling, which models a variety of economic paths more clearly, more distinctly than it had done in the past, as well as how it looked at the defaulted loans and how they would transition from performing to non-performing and how that works—so a number of important changes in the model.

Senator MURRAY. Mr. Montoya, you raised concerns about the 2010 and 2011 books of business. Can you tell us what your specific concerns are?

Mr. MONTOKA. Our concerns are that they aren't appearing to be as profitable as we think FHA has sort of rested their future estimates on. While they're not far off from some of the estimates FHA has, it's our feeling they may be weighing too much on how successful they will be.

Senator MURRAY. Weighing too much?

Mr. MONTOKA. Yes, ma'am, that they would be less successful than they anticipate to be.

Senator MURRAY. Commissioner Galante, do you want to respond to that?

Ms. GALANTE. Certainly. The budget re-estimate process, as part of the President's budget, every year re-estimates every cohort of business that FHA does and determines whether the estimates that had been done the year before, based on current economic conditions, would still hold. So the Inspector General is correct that for 2010 and 2011, the re-estimate this year was that those books of business were not as profitable as they had been anticipated to be. But they certainly still were very profitable and successful books of business.

On the flip side, the 2012 cohort was demonstrated as actually adding value to the fund that had been unanticipated. So this is really the result of the budget estimation process requiring long-term projections in terms of looking at the economic success of each of the cohort years of business.

Senator MURRAY. We already talked about HECM loans, that they continue to represent a disproportionate share of losses to the fund. HECM loans can be a great resource for seniors who want to stay in their homes, but there are a lot of problems with the current product.

HECM HIGH DEFAULT RATE

Commissioner Galante, I wanted you to explain to us why the HECM loans are experiencing such high default rates and what reforms you are proposing to reduce the risk on that.

Ms. GALANTE. Yes, thank you. There are a couple of reasons for the challenge with the HECM program. First, I would say that like the forward book of business, the HECM loans are suffering from projections of a decrease in home prices. And that affects—particularly for the HECM loans, long-term house price projections definitely affect the reverse mortgage program projections more severely than they would in a forward mortgage because they are for a longer period of time. So that is one reason.

The other reason is that, frankly, the way they have been underwritten is based on the longevity of the life of the individual borrower, and there is improvement in longevity. So some folks are outliving, so to speak, the original actuarial projections there.

Those things are magnified by other challenges that I would say are in the program design today that we really want to get to the heart of fixing. One is that the way the program is designed today encourages people to take a large amount of the mortgage proceeds up front, and then sometimes what happens is they don't have enough over the life of the mortgage to continue to pay, say, their property taxes and insurance liability and other challenges of that nature.

So what we are really asking for, I would put in three buckets. One is to be able to immediately, through mortgagee letters, as opposed to going through 1½ years plus rulemaking process, make some immediate changes on the principal amount that borrowers are allowed to take out up front.

Senator MURRAY. And you can do that without legislation?

Ms. GALANTE. We can do that without legislation, but we would have to go through rulemaking. Without you giving us authority to do it by mortgagee letter, we would have to go through a longer process to get there. But, statutorily, we could do it.

Second—and I know I'm taking a bit of time here. But, second, I would say that demanding that we do a financial assessment of the borrowers and their ability to pay the taxes and insurance on an ongoing basis—right now, we are encouraging lenders to look at that, but it is not a requirement of the program. So that's an important measure that we would want to do, and, also, requiring set-asides for taxes and insurance, for example, for those owners who really need that, to be sure that they can pay their ongoing charges.

Lastly, I would say there is a challenge in the current environment where non-borrower spouses are not being—if they're not on the mortgage loan, they're not getting the protection of being on the mortgage loan and being able to—

Senator MURRAY. In my understanding, sometimes that's done because of the age of the spouse.

HOME EQUITY CONVERSION MORTGAGE COUNSELING

Ms. GALANTE. Yes, sometimes—you know, what we believe is happening is by the age of the spouse, they are not eligible to be part of the HECM mortgage. But what we want to make sure of is that we have rules going forward where they're part of the mortgage and, therefore, get the protection. But their age is also taken into consideration in the underwriting so that we are actuarially pricing this according to the life of the borrowers.

And so there's some confusion perhaps in the market or disagreement about whether that provision—whether we can do that correctly today based on statute. We have taken the position for the past 25 years that we can. But there's been some challenge to that, and we would like legislation to clarify the intent that we can continue to do that.

Senator MURRAY. Mr. Montoya, what do you think about those proposed reforms?

Mr. MONTOKA. We certainly support FHA's proposals. One of the concerns that we have seen through a lot of the failings with these loans and, quite frankly, from a lot of the fraud aspects that we see is that we don't believe that counselors are doing as good a job as they should be in really identifying for these seniors the loan they're getting into and really what they're getting into.

They're not really instructed on how much and how expensive it would be, sometimes not instructed on the taxes and insurance and homeowner's fees that will need to be paid, sometimes two or three times more than what they make in a monthly income. Many times, they don't even see these homes before they get into them, if they're buying a new home under the HECM program, to make sure they fit their needs as they begin to age.

So there's a lot of other things that we think we can work with FHA to do to tighten up just sort of the knowledge that these seniors need before they take this product.

Senator MURRAY. My time—I've gone way over.

So, Senator Collins, I'll turn to you.

Senator COLLINS. Thank you, Madam Chairman. Let me follow up on the question on reverse mortgages.

Commissioner, you referred very briefly to an issue that I want to ask you a little more about. And that is some seniors with reverse mortgages insured through the HECM program have failed to pay their property taxes and/or their homeowner's insurance premiums, which technically, at least, puts them in default on their mortgages.

In order to avoid this problem, could HUD require lenders to set up an escrow account where, as with forward mortgages, property taxes, and insurance are paid out of that account and then added to the mortgage balance? Many of us have escrow accounts built into our mortgages to make sure we do have the funds available for property taxes and insurance when they come due.

And second and related to that—because you did refer to doing something in that area, but I'm unclear exactly what—are you in need of legislative authority in order to avoid this very lengthy rulemaking that the Inspector General has referred to in order to implement such a change? So, first of all, are you considering an escrow account type requirement, and, second, if so, can you do it administratively quickly?

Ms. GALANTE. Yes. In order to do it administratively quickly through a mortgagee letter, we need authority from you to do it by a mortgagee letter, as opposed to going through the full rulemaking process, because the current regulations for the HECM program do not permit us to do this.

Having said that, I do want to be clear. We would really like that authority, but I do want to be clear, though, that we have been

working on this with whatever tools we can in the interim. We actually issued a mortgagee letter asking lenders to go out and notify borrowers, for example, who were in default on their taxes and insurance, and work with them for repayment plans. We did that about 1 year ago, and it is being successful.

HOME EQUITY CONVERSION MORTGAGE ESCROW ACCOUNTS

That isn't going to turn the tide for the future of really ensuring that up front. We are setting aside the funds so that we know that there is an escrow there for those homeowners to pay those property taxes and insurance charges—and also to evaluate the borrower on their ability once they take out this mortgage to continue to be able to pay those taxes and insurance. In order to do that, we need to change the regulation, and that means either going through a 1½ years long process, or, if you give us the authority to do it, by mortgagee letter, we could do it more quickly.

Senator COLLINS. Do you think it's a good idea in concept?

Ms. GALANTE. Absolutely. If I didn't make that clear, we think it's a very necessary component to the program.

Senator COLLINS. Why is your rulemaking so slow? I assume you follow the APA the way any other agency would.

Ms. GALANTE. Yes. Let me just be clear: We are working on guidance today so that if we need to go through the rulemaking process, we will try to do it as quickly as we possibly can. The proposing of the notice, getting comments back, evaluating those comments, putting back out—you know, hopefully, you don't get any major controversy; if you get major controversy, then you may have to re-propose—it just takes a significant amount of time to do that analysis and back and forth.

Senator COLLINS. I guess what I don't understand—if I were in your shoes—and you've identified this problem, and you've identified something you could do about it—I'd be in the midst of rulemaking right now. I wouldn't wait. I would still ask us for authority for you to do it in a more expeditious manner. But I wouldn't be waiting to do rulemaking. And it seems to me that a point that the Inspector General has made in his reports is this slowness of response by FHA.

Ms. GALANTE. Yes. To be clear, we did spend the time to immediately—so 1 year ago, we put out the guidance—

Senator COLLINS. But guidance isn't rulemaking, and I'm not a fan of agencies putting out guidance, because it means that it doesn't go through a public comment process.

Ms. GALANTE. Right. We did that in January of last year, though, just to ensure that we could deal with the current situation that we have with people who are already in current defaults.

Senator COLLINS. Excuse me for interrupting. But if in January of last year you had started the rulemaking on this, you would be probably done now or close to it.

Ms. GALANTE. Yes. So, as I said, we are in that process of getting ready to put out a rulemaking. We're in the rulemaking process. We just haven't actually put out the proposed rule yet.

Senator COLLINS. Well, I've got two other issues I want to turn to. But I guess what I would say to you is it seems to me you should have begun that rulemaking last January. It's now June.

That's 1½ years. You'd be done. And I just think, even though it's faster if you get the mortgagee letter approach approved by us, you know what the legislative processes can be like. It's not pretty these days.

I just would encourage you that if you think you have the answer to something, don't wait. Start the rulemaking. You don't have to necessarily go—you may be able to short circuit it through legislation, but don't wait. That was 1½ years ago.

Ms. GALANTE. We are working on that.

Senator COLLINS. Let me turn to another question. You informed us today that FHA has now used 75 percent of the commitment authority for the general insurance and special risk insurance fund, and current projections indicate that without additional commitment authority this year, FHA will be required to suspend insurance activity in mid August. This is very troubling to me.

As you know, the chairman and I have been supportive of increasing the commitment authority for this important program. We would have liked to have gotten it in along with our bill, into the continuing resolution that was passed. It's important because it provides mortgage insurance for the construction of multifamily housing, hospitals, healthcare facilities.

How will FHA manage the remaining commitment authority, and what will the effect be if the fund is forced to suspend activity because you've run out of commitment authority?

COMMITMENT AUTHORITY

Ms. GALANTE. Yes, thank you, and thank you for your support for the additional authority. I would say a couple of things. First and foremost, now that we have hit the 75 percent, any commitments that are issued need to come into headquarters before they're issued so that we can literally—the first and foremost concern we have is to be sure that we're monitoring daily each commitment that's issued and now allowing a commitment to be issued if we don't have the authority. So, particularly, as we get closer and closer to the end of the fiscal year or to exhausting 100 percent of the authority, we need to pay attention to that.

We have also had a number of conversations with industry about how to prioritize if we don't get additional commitment authority, you know, the best ways to prioritize the remaining——

Senator MURRAY. If I could just—how many projects do you have in the pipeline right now?

Ms. GALANTE. I don't know the exact number of projects, but we have in the pipeline more than the amount of authority we have left for the balance of the year. So if we need to stop issuing commitments in mid August, really, what we're talking about is new construction projects that were ready to close or soon to be ready to close and get under construction. We'd lose those jobs. We'd lose that economic activity.

For properties that are being refinanced, you know, and are rehabilitating properties, they won't get their rehab done. They might be refinancing to take advantage of lower interest rates and, therefore, really be in a position to be as financially sound as possible going forward and protect the property. So those activities would

need to be delayed. This really is a problem of delay if we run out of authority between now and the end of the year.

Senator COLLINS. Thank you, Madam Chairman. That is of great concern.

Senator MURRAY. Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chair.

Ms. Galante, I have the same problems as the Senator from Maine with the guidance issues, as far as not going forward and going through the process, where you have guidance which essentially has the same force of a rule, but the process isn't done. You said that you hadn't done it yet. I guess my question is when is yet? When do you expect a rule to be forthcoming?

Ms. GALANTE. We're in a position that we are driving as hard as we can to get a proposed rule out by July or August of this year, because, again, we really need to get it in place as soon as possible so that we can continue to operate the program.

Senator BOOZMAN. So July or August is a reasonable expectation of the—

Ms. GALANTE. That's the proposed rule, and then there's the back and forth process, yes.

Senator BOOZMAN. Let me ask you this. Last summer, the FHFA released a public request for comment on proposals to use a municipality's power of eminent domain to seize mortgage loans. At that time, the FHFA expressed concerns with such proposals and said that action may be necessary on its part to avoid a risk to safe and sound operations at its regulated entities and to avoid taxpayers' expense.

What is your view on the proposed use of eminent domain in that regard?

EMINENT DOMAIN

Ms. GALANTE. Yes, thank you for the question. We certainly think it's premature for FHA to issue any guidance on this. There are a few places that have adopted the policy, but not actually implemented it. We believe the eminent domain process at its core is a local issue, and how localities use their eminent domain is something that is subject to a lot of local review.

We also believe that the idea of it being used on mortgages is trying to get at an important issue of people's inability to refinance their mortgages that are in private label securities, and I think that's the primary driver behind that concept. And we do think that there are other ways of working to get more people refinanced who are under water, and we certainly look forward to continuing to work with Congress on some of those solutions.

Senator BOOZMAN. So if they are refinanced under that system, they are done into FHA-backed loans, potentially?

Ms. GALANTE. Again, you know, if a community gets to a point where they are through all of the significant issues that are still to go to work out whether this is a viable concept, if all of that happens, then FHA will obviously need to be in a position to look at its approach to those loans. We just think it's premature in terms of how those proposals are being implemented.

Senator BOOZMAN. It seems like, though, that you would weigh in, in the sense that if it is such, that you're going to be in a posi-

tion that they are FHA-backed, and that could potentially affect the solvency of the insurance fund, it seems like you would take a position.

Ms. GALANTE. Again, Senator, we think it's premature in terms of even beginning to understand how they would operate in an individual localized context at this point.

Senator BOOZMAN. Do you have any comments about this?

Mr. MONTROYA. No, sir. We have not actually looked into the matter. Certainly, it's an area that we're going to monitor and have some concerns over, but I would echo what the Commissioner said. I think these are very localized issues, and how those would be addressed in the local areas is probably the biggest question we would have.

Senator BOOZMAN. Personally, I think it's a huge problem if you're taking mortgages that are current in their payments from individuals. I mean, that, to me, is a huge departure from what's been done in the past. So are you starting to weigh in? Are you looking into this?

Ms. GALANTE. Again, I would just say we think it's premature at this point. Some of the concerns that you have about how one values these mortgages is a big—

Senator BOOZMAN. But you wouldn't do that through guidance. You'd go forward somehow where somebody could weigh in in regard to—

Ms. GALANTE. I'm sorry?

Senator BOOZMAN. I said if that were to happen, we wouldn't just have guidance in how to deal with that. You'd do some sort of rule-making process or something.

Ms. GALANTE. I think it's hard to say what kind of guidance would be necessary until we understand the details of how these programs might work in an individualized way.

Senator BOOZMAN. Thank you.

Mr. Montoya, you acknowledge that FHA has been slow to respond to many of the recommendations and has only recently implemented some of them. Can you comment on what you see as the primary cause for the delay?

Mr. MONTROYA. Well, going back to the earlier discussion on the HECM program with regard to the taxes and insurance, a lot of those changes or recommendations came out of an audit that happened 3 years ago, and we're only now getting to the point where something is being done. It's our feeling that FHA may be resting too much on the reliance, if you will, on the granting of legislative authority as opposed to beginning the proposed rulemaking process early.

That kind of goes in line with what we've been saying. It's just very slow to address a lot of these forces that in the financial world, if you will, you've got to be able to address pretty quickly. You know, 2 or 3 years down the road, you've not only surpassed it, but you're into another problem. So, again, to echo back to the taxes and insurance issue, that's sort of a more recent example.

Senator BOOZMAN. Can you comment on where you feel the glitches are in not responding quicker to the Inspector General's suggestions?

CHALLENGES TO FHA REFORM

Ms. GALANTE. Let me just say on a more global level, as opposed to just the HECM program, there are several challenges here. The first and foremost, I would say, is to think about the crisis that we've been in for the past number of years. We have had massive amounts of policy changes and rulemaking to do, and we have needed to prioritize at some level our own resources, our analytical resources, our process resources.

All of this goes through our risk management office of evaluation, the Office of Management and Budget (OMB), and so this, you know—we've had a lot on our plates. And when you look at the forward mortgage, which is most of the trillion dollars of portfolio, we certainly have been spending a lot of effort there.

The second point I would make here goes to the resource question of both staffing and also to the FHA transformation project, the information technology. So one of the Inspector General's recommendations to us about how we look at defaulted loans or non-performing loans—they made some recommendations that also took us a while to implement.

But through use of the FHA transformation project, we were able to put in a very robust claims review process that is meeting all of the Inspector General's recommendations and more. But it took the time and the resources to get the information technology in place in order to perform the reviewing of all loans that went to claim in 2 years, all early payment defaults, plus an algorithm to pick out other high risk loans to review.

So, you know, I think it's very successful that we're doing it. But it took that time to get the systems in place to be able to do it.

Senator BOOZMAN. Thank you.

Thank you, Madam Chair.

Senator MURRAY. Thank you. As everyone is so aware, many families experience a sudden crisis—it could be a health issue, a job loss, or some kind of unforeseeable situation—that leaves them unable to make their mortgage payments, and many of them are today desperately seeking a way to stay in their homes. I've had a lot of constituents come to my office to get help with some kind of loan modification.

We all know appropriate modifications can benefit everyone. It can benefit the homeowner, who can stay in their home; the lender, if they want to avoid some kind of lengthy, costly foreclosure process; and for FHA, loan modifications can help avoid or reduce claims, which is why FHA requires its lenders to provide loss mitigation services to borrowers that fall behind on their payments.

But it seems that lenders may not be adequately fulfilling this requirement. One of the new reforms that FHA is proposing to us would allow HUD to transfer the servicing of loans to a different servicer who could better assist the borrower with some kind of modification.

Ms. Galante, what problems have you seen or can you describe for us in FHA's loss mitigation programs that led you to request that new authority?

LOSS MITIGATION

Ms. GALANTE. Yes, thank you for the question. One of the things we see is that while you may be able to see any individual servicer looking at their overall record, they are—I don't want to say checking the box—but they are meeting the individual steps. But when you look at certain servicers and you see that their particular portfolio has a much smaller rate of successful loan modifications, you say to yourself, "There's something deeper going on in that servicer's shop that somehow our reviews just aren't able to pick up."

So we really want to be able, particularly for those servicers that we see that are not having good outcomes or not having outcomes as good as some of the other servicers—we want to be able, if we can't get them there through other means, to ultimately say, "Look, we've got to take this part of your portfolio and require it to be transferred or require you to subservice and really, you know, just require that you show that you can perform at a different level or have someone else perform for you."

Senator MURRAY. Mr. Montoya, do you think this would improve loss mitigation efforts, this proposal?

Mr. MONTOYA. Well, I think, on its face, we would certainly be supportive of that. Anything that would keep any more losses from the fund occurring would be certainly beneficial.

It's not something we've audited, although we are contemplating doing that later this year because, like anything, there will be risks, I'm sure, and we'll want to find out what that might be to work with the Commissioner early on in addressing them. But I would certainly support anything that would keep any more losses from occurring as beneficial, not only for the fund, but for the communities that they serve and the individuals that are being impacted by these issues.

Senator MURRAY. Mr. Montoya, the work you're doing in partnership with HUD, Department of Justice, and some State attorneys is helping HUD recover money from claims that are paid on mortgages that weren't properly underwritten. In your testimony, you highlighted some of the egregious errors that you uncovered in your review of loans from 2007 to 2009.

I understand that, to date, your office has helped recover hundreds of millions of dollars from these settlements in addition to the funding FHA received from the servicing settlement. Can you explain the investigations you and your partners are undertaking and what exactly you're finding?

OFFICE OF INSPECTOR GENERAL INVESTIGATIONS

Mr. MONTOYA. Sure. Yes, ma'am, absolutely. Thank you for the question. I think all total, to date, my office has recovered over \$1 billion. It would probably pay for ourselves a number of times over. But the types of reviews that we're doing are not minor technical reviews. We are looking at wholesale disregard for the FHA insurance program.

We're looking at material type violations that we call incurable, things you can't fix, things like borrowers who never had the income in the first place to afford the home they're buying; no debt

to income ratio analysis that would tell us what other bills they have to pay that would impact being able to make the mortgage; and, quite frankly, something as basic as whether they have the funds to come to closing to close on the loan. So these are the types of things that we're seeing and that seem to be rampant in some lenders.

So, again, what I'd want to stress—because we've heard from a lot of stakeholders, mortgage bankers and others, that we're sort of nit-picking, that we're looking at technical violations, and that couldn't be further from the truth. We've got a number of other lenders we're currently looking at, and we've got more in the pipeline. Quite frankly, I'd have to say we have more than we can deal with, and we've actually had to turn some United States attorneys' offices away that would like to pursue some of these, because much like the Commissioner, we have limited resources, and there's only so much I can do. So we're trying to pick the worst of the worst, if you will.

But, again, just to reiterate, we're talking about wholesale disregard of the program, something as fundamental as whether they can afford the home in the first place, and whether they have the resources to afford it.

Senator MURRAY. You've also recommended that HUD take some steps to avoid paying unnecessary claims, including delaying payments to lenders and reviewing early default loans. What are the specific actions that you would like HUD to take to address some of those recommendations?

Mr. MONTROYA. Well, to reiterate something the Commissioner said, we certainly recognize that staffing is always an issue, and limited resources. But some of the things that we've been recommending are reviews of what we call high risk defaults. These are defaults that have defaulted in the first 24 months of the loan. Those are always red flags for us of how we got there in the first place that early.

You know, reviewing these while they're in the foreclosure process before they become claims, so that—because the foreclosure process can take months and months, that's a very good time to sort of look at these things to see if there was fraud or some sort of mismanagement, if you will, of how they underwrite these loans in the first place, so that HUD could avoid paying these loans if at all possible.

These are the kinds of things that take staff resources, but they're also the kinds of things that the private mortgage insurance companies do. So in a perfect world, we'd like to see more of that happen. Recognizing, too, that HUD has an obligation to pay on these loans within a very short amount of time—you know, the Prompt Payment Act requires them to pay these claims within 30 days. That is insufficient time for them to do really any kind of review of the loan to see if there was any fraud or mismanagement in the underwriting of the loan.

One of the recommendations that we have shared with the Commissioner and would like to talk to Congress and work with this subcommittee on is certifications, an idea concerning certifications by these lenders, where they're certifying that the loan that they're providing to FHA for a claim has been reviewed by them and it

meets all the qualifications of a properly underwritten loan. It puts the onus back on the lender, if you will, and kind of keeps the exposure to FHA down.

While there's a lot of discussion yet to be had on the issue, these are the kinds of things that we are recommending.

Senator MURRAY. Commissioner Galante, do you want to comment on whether that's doable and what you think of it?

Ms. GALANTE. Sure. I would say two things. First of all, we really appreciate the partnerships we have with the Inspector General on improving our quality assurance, our loan review process. I think their recommendations on looking at early payments defaults, for example, and looking at loans on an ongoing basis, we are now doing in a robust way with the help of our technology, which is from your help. Thank you.

We think we're on the right path now going forward for some of those processes. We recently have talked about additional legislative items we might need or administrative actions that we could take, including looking at how good the certifications we have are. We're certainly willing to work with the IG on looking at that.

Senator MURRAY. My time has expired, so I'll turn to Senator Collins.

Senator COLLINS. Thank you.

Commissioner, you have mentioned that the FHA's market share is decreasing and beginning to return to more traditional levels. Is a reduction in market share a goal of this administration?

FHA'S MARKET SHARE

Ms. GALANTE. It is a goal of this administration that FHA return to a more normalized, traditional role in the marketplace. How one measures market share is an interesting challenge, in that one of the things that we've seen through this whole crisis is that the whole market has shrunk. So even though FHA's absolute dollar amount could stay the same, you need to have private capital come back in so that you're growing the whole market in order for our market share to begin to drop.

We are beginning to see that, and I think there's a couple of reasons for that. One is that the premium increases that we've made and some of our other policy changes are encouraging private capital to come back. But I also think private capital is starting to come back because they're seeing the—you know, we've played a countercyclical role, the market is getting better, and we're seeing that private capital is now willing to put more financing available in the marketplace.

Senator COLLINS. Let me talk about the premium increases that you mentioned and what strikes me as a possible unintended consequence of some of the policy changes. FHA, as you mentioned, has announced several premium increases in an effort to improve the financial health of the fund.

I was surprised to read that one of the changes that was also included was to not allow borrowers to cancel their annual mortgage insurance premium when they reach the level where they have sufficient equity in their homes. This strikes me as not fair, but it also strikes me as leading to a perverse outcome where that borrower who has clearly been paying on time and has reached a certain

level of equity is going to refinance out of FHA and leave you with a pool of more risky borrowers.

So why would you want to implement that change?

Ms. GALANTE. Thank you, Senator Collins. This may be a bit counterintuitive, but I think this is a hugely important policy that FHA is doing, and let me explain why. First of all, the policy of allowing cancellation of the premium did not come into effect at FHA until about 2000, 2001. So for most of FHA's history, the policy we're talking about reversing now was not in place.

There's a bit of history that I don't really know, but I've heard, about why FHA back in 2001 did this. It was because the private mortgage insurers were going in this direction. But the challenge here is—and this is why it's important to have a good risk management office—the risk for the private mortgage insurers is entirely different than the risk for FHA. They're only insuring the top part of the loan. FHA is insuring the entire part of the loan.

Even if you buy on an amortizing basis, have more equity, theoretically, in your home, we still have risk that if home prices go down, as they did during this crisis, we're still on the hook for the risk for that loan. In fact, one of the things we saw is that we were continuing to see claims, have defaulted loans on loans after they had stopped paying on their MIP, because it was an automatic cancellation.

So we lost during the crisis by having that old policy in place. We lost, our risk manager believes, probably \$10 billion of revenue that we would have otherwise had, and as prices declined, we would have had more revenue to deal with the losses. So we think this is an important reversal of policy for the future. As long as home prices are going up, up, up, maybe you'll have some people refinance out of these loans. But in the long term, ensuring that your premium matches the risk that you're taking on was the most important thing here.

Senator COLLINS. Have you seen homeowners refinancing out of FHA-insured loans in order to avoid that mortgage premium insurance payment?

MORTGAGE INSURANCE PREMIUMS

Ms. GALANTE. This policy just went into effect, so we haven't—Senator COLLINS. It's too soon.

Ms. GALANTE. It's too soon to tell. But I would also just say that, primarily, what's going to drive people to refinance is our interest rates.

Senator COLLINS. Right.

Ms. GALANTE. So that's really going to be what drives people to decide to refinance or not.

Senator COLLINS. Let me talk to you about the financial health of the FHA single family mortgage mutual fund. We've all mentioned the fact that the budget request shows that you anticipate drawing on your authority with the Treasury during this year to hold in reserve against expected future losses. Obviously, \$943 million is a lot of money and is of great concern to us, or to me, because it would be the first time that you have taken this step. We thought it was going to happen last year, and then it didn't because of the settlement.

Have conditions changed since that budget request, or do you still anticipate drawing that amount of money from the Treasury? What's your current prediction?

Ms. GALANTE. Two things I do want to say. While we projected that we might draw last year and we didn't, and we certainly did get a number of settlements, we also made a number of policy changes that impacted, and we had volume that went up. So we would have ended up not drawing—even without the settlement dollars, we ended up with \$3 billion positive as opposed to the draw of—I think it was \$688 million that we thought we might take.

And I say that because this year, the main thing that will drive whether we draw or not draw is whether our—this year, we have done all the premium increases and the policy changes before this budget came out, so those are kind of baked in. Those expectations of revenue are already baked into the budget. So the one thing that will change is whether we have a significant increase in volume. Then we would be less likely to draw or to draw that amount of money.

And the other thing that I just would want to get out on the table here is if we, through the policy changes that we've been making, see significant improvements as a result of those policy changes in our recoveries, you know, on defaulted loans, on our real estate owned, that could, in consultation with OMB, change the trajectory.

Senator COLLINS. What's your current estimate? You said that your premium increases are already baked into the budget. So, presumably, that's baked into the \$943 million.

Ms. GALANTE. Yes. The premium increases are already baked in. So, again, it will depend primarily on volume and whether there is a significant credit given to the recovery efforts that we've been taking on in terms of getting better on our recovery of our loans.

Senator COLLINS. So do you have an estimate for us, a new estimate?

Ms. GALANTE. We do not.

Senator COLLINS. Thank you, Madam Chair.

Senator MURRAY. Senator Boozman?

Senator BOOZMAN. Thank you, Madam Chair.

Mr. Montoya, you mentioned that we have situations where you have just wholesale disregard for the rules, the high risk defaults, where you just know there's something going on based on that. Is there adequate legislation in place to deal with that right now? Do we have the safeguards to deal with the individuals who everybody in the room would agree are blatantly playing the system to their advantage?

FRAUDULENT LENDER SAFEGUARDS

Mr. MONTROYA. Well, I appreciate the question, sir. Thank you. I think in one regard, the answer would be no. I think we could strengthen some of that. Right now, the way the laws are set up, a lender, i.e., being the company, that's found to be in violation of FHA's underwriting standards and that we're, in essence, going after, can simply shut their doors today. The very individuals who were running that lending company could go start up a new lending company tomorrow and be back in the business.

So, unfortunately, we're not set up so that we can go after an individual. Shy of proving that they, specifically, they, themselves, have committed a fraud, which is very difficult to do, there's no way to sort of tack onto them the effects of the fact that they were running a poor company that poorly underwrote loans. So, in other words, there's no way for us to suspend them, specifically, individually, from being involved in the FHA program.

So that's an area that we will be recommending some legislative language on. That would probably be the biggest thing. And I think until you can tag individual responsibility onto individuals for this kind of stuff, I'm not sure that we'll do much to change the culture of somebody who wants to defraud us.

There's risk in any insurance program, as you well know, and we're never going to be 100 percent risk free. To the extent we can mitigate that, that would, to me, be one big mitigating factor to consider.

Senator BOOZMAN. Very good.

Ms. Galante, do you agree, or can you add to that?

Ms. GALANTE. Yes. I would just say I think this is an important issue and a very tricky one, and we share the concern with the Inspector General. What you're struggling with here is basic corporate law, in terms of if you're a corporate officer and you're doing things in the name of the corporate officer. I think there are some ways that we could explore to address this particular issue, but it is tricky.

The other thing I would say is there are other items, in terms of help with enforcement, that we certainly legislatively would like and some of which we have asked for and were passed twice by the House. And we would very much like to work with the Senate to get those particular authorities to be able to terminate lenders based on their national work. Right now, if they operate in different geographies, we have to go after them in each of the geographies in which they're operating, which is obviously a challenge.

And we don't have what's called indemnification authority for every class of lenders that we have. We have it for most of them, but not all of them. Those are two additional legislative asks that we would have in terms of enforcement authority.

Senator BOOZMAN. Very good.

Mr. Montoya, I guess the only other thing I'd ask is what are the top couple—I read your testimony. What are the top couple of things that you feel that we as a Congress—you know, we're talking about this, and you said that you were prepared to perhaps come forward with some suggested legislation that we could look at and be more helpful. What other things are out there? What are your top couple of things that you'd like to see us maybe step forward on?

This is a huge issue, and it affects those in the housing market, in the sense of trying to get in a home. All this stuff does is increase costs, and then also the cost to the taxpayers. Do you have any other things that you could dwell on for a second?

Mr. MONTOKA. Yes, sir. Thank you for the question. Certainly, FHA faces a difficult challenge in striking that balance between protecting the fund, making the program attractive to prospective homeowners, lenders, that sort of thing.

I think one of the things we're concerned with is that FHA is sort of too concerned, really, with regards to market share. While I understand they're coming down from that market share, I think, historically, we've seen too much of a concern on market share. By that, you end up taking risks, you know, for the simple reason of do you want to keep these lenders in the program. So that's one concern.

INFORMATION TECHNOLOGY INFRASTRUCTURE

I think sort of the biggest concern for really what is a financial institution is their aging IT infrastructure and their ability to manage this high finance world, if you will, on systems that are 15 and 30 years old. I think in the budget request, if I remember correctly, that FHA submitted, they're asking for over \$100 million in one budget cycle just for maintenance of these aging systems, and they're just going to get older every year.

My major concern from an IT perspective when we come and do the financial information security type reviews is could we end up having a major, major issue with the IT portion of it, i.e., losing data, is it vulnerable to manipulation, these sorts of things. So that would probably be my biggest concern, and as appropriations go, that takes money. I recognize that.

But when you're spending \$100-plus million a year on just maintenance of old systems, at some point you've got to pull the bandage and say, "Okay, we've got to upgrade these things."

So those are probably my two biggest issues, you know, too much emphasis on the lenders in the program and trying to keep that market share, as opposed to just letting FHA do the cyclical rule that it's always done; and the IT infrastructure.

STAFFING CONCERNS

I think the other thing I would add is the staffing concerns that FHA and, quite frankly, their sister counterpart in the Department, Government National Mortgage Association (GNMA), has, and that's staffing. I think some of the critical roles that both of these organizations have—I don't believe the pay structure allows them to recruit and retain the best that we could probably get because we're competing with the private sector market.

And much like FHFA, as you mentioned earlier, the Securities and Exchange Commission, these organizations have additional budgetary salary authority to allow for that increased salary for key positions. I would certainly support something like that on behalf of FHA and GNMA to get the right qualifications you need to deal with some of these issues. So probably those three things.

Senator BOOZMAN. Thank you.

Madam Chair, with your permission, could I ask if she agrees?

Senator MURRAY. Absolutely.

Senator BOOZMAN. I think he's trying to help you. Do you agree with the aging infrastructure and the things like that that Congress perhaps needs to help out with to help you do a better job?

Ms. GALANTE. Absolutely, I do, and it's very difficult. You can't retire the old systems until you build the new systems. You still have to continue to function in an ongoing environment—so the aging infrastructure. I agree with the staffing issue, and I would

disagree a little bit on market share, but I think I would say it a little differently. We are concerned about the balance between access to credit for folks and the variety of controls we need to put on enforcement. So I think we're in the same basic place.

Senator BOOZMAN. Thank you, Madam Chair.

Senator MURRAY. For the record, would you give us what your priorities are on the IT? We have invested quite a bit, and I'm worried about that as well.

[The information follows:]

For the last 80 years, the Federal Housing Administration (FHA) has played a critical role in support of the housing market. FHA has provided sustainable affordable housing for millions of Americans while also playing a critical countercyclical role during times of economic stress.

FHA's capacity to deliver on this mission is increasingly at risk due to operational constraints and technology challenges. FHA's budgetary constraints, its uncompetitive compensation structure, and outdated technology put its core mission at significant risk and expose taxpayers to potential financial losses that can be avoided.

The outdated technology challenges start with the two, core FHA information technology (IT) systems known as CHUMS and FHAC. These systems, which manage hundreds of billions of dollars of transactions, are between 30–40 years old. These core systems are surrounded by more than 20 other fragmented systems, which handle ancillary, but critical functions.

While the technology already at FHA's disposal is challenged, there are also technology tools that FHA does not have, but desperately needs. These include effectively risk-monitoring tools, portfolio evaluation systems, and risk modeling technologies. These are all standard systems in the mortgage markets, which FHA lacks.

These technology issues lead to a number of significant management challenges, including:

- Lack of access to timely and useful data to inform risk management and mitigation decisions;
- Reliance on volumes of paper and manual processes that lead to significant errors and suboptimal allocation of resources;
- Persistent data integrity issue—different systems say different things; and
- Challenging operational constraints which make it difficult for FHA to implement new quality assurance and risk mitigation actions.

FHA generates more than \$10 billion in receipts and pays out billions in claims each year.

And while FHA Transformation—an initiative launched to address these challenges—has clear and significant payback (e.g., estimated at more than a billion dollars over the next several years), lack of funding has put the program at risk.

FHA TRANSFORMATION

FHA Transformation was launched several years ago to remedy the exhaustive list of IT challenges. Specifically, the initiative aims to address three main management challenges through better technology infrastructure:

- Detect and prevent fraud, waste, and abuse:
 - Automate the aggregation of lender, borrower, and asset information of inbound data;
 - Automate the aggregation of lender and appraiser past behavior and violation history; and
 - Synthesize high-risk profile information and past, actual fraud data.
- Prudently manage credit risk at both the portfolio and loan level:
 - Develop comprehensive portfolio, borrower, and collateral risk analytics;
 - Implement a portfolio evaluation tool to enable default, prepayment, home price, and cash flow modeling and loan-to-value (LTV) analysis;
 - Support the Office of Risk Management by enhancing forecasting capabilities and analytical;
 - Run situation-specific ad hoc reports and scenarios on the Single Family Housing (SFH) portfolio; and
 - Provide monthly refreshed credit data at the loan level for borrowers.
- Respond rapidly to changing market conditions:
 - Provide a common, modern platform that supports rapid deployment and continued modification of current and new FHA business systems and processes;

- Deliver a single source of authoritative data from which to perform risk analytics and other operational reporting;
- Following migration of functionality, decommission legacy systems within SFH, Multi-Family Housing (MFH), and Healthcare; and
- Simplify process of making changes to underlying system business rules.

At the time this initiative was launched, the estimated cost was set at approximately \$115 million. Given FHA generates more than \$10 billion in receipts and billions in losses, this investment has clear and immediate payback.

PROGRESS ON FHA TRANSFORMATION

Significant progress has been made on FHA Transformation to date. This includes:

- Investment in basic infrastructure that will replace the core systems;
- Launch of front-end system that accepts lender certification;
- Portfolio analytics that has identified billions of dollars of improvement potential in how FHA disposes of assets; and
- Piloting and testing electronic application processing tools.

About half the investment FHA needs has been made to date to achieve this progress.

APPENDIX

IT challenges in the Single Family portfolio:

- Unclear picture of full credit risk on a loan and inconsistent referral of higher-risk loans for manual underwriting;
- TOTAL system allows lenders an unlimited number of pre-qualification submissions with only a limited audit trail;
- Reliance on multiple automated underwriting systems not owned by FHA;
- Heavy reliance on manual processing and paper case binders sent in by lenders;
- Manual application verification processes;
- Inability to automatically validate appraised value prior to loan closing and endorsement and unable to receive appraisal information through direct interface with lenders;
- Lack the capability to accept eSignatures;
- Post endorsement and appraisal reviews based on outdated algorithms and thus unable to effectively target most risky loans;
- Lack ability to track lender activity and interactions with lenders over time, increasing risk of fraud; and
- Data integrity and data reporting issues leading to manual data entry, processing delays and limited accuracy.

IT challenges in the Multifamily and Healthcare portfolios:

- Inability to proactively identify and mitigate risk due to lack of capability to share and analyze data (no central data, paper based application processing);
- Processes are entirely manual, relying mostly on MS Word and Excel, for credit analysis and write-ups;
- Difficult, and in many cases, impossible to implement new programs in existing systems; and
- Limited management reporting.

Senator MURRAY. But I just had one final question, and that is that you recently announced a significant reorganization of the Office of Multifamily Housing. It's going to affect about 900 HUD employees over the next several years. The administration has rightfully said this move will reduce costs, create efficiencies, and improve program delivery.

But those changes are going to mean fewer staff available to oversee and manage HUD's programs, and it means that HUD staff will not be located in many areas of our country, a concern that some multifamily housing providers in my State have raised with me personally. Can you just tell us how you can ensure that oversight will not be compromised under this new structure and that customers will continue to see the same level of service, particularly in places where HUD is no longer going to have an office?

OFFICE OF MULTIFAMILY HOUSING

Ms. GALANTE. Yes, thank you. Clearly, it is challenging to operate on a national platform with the demand on the multifamily office. I just want to say that in terms of long term, this is critical to get our workload balanced across the country.

So just to give you a quick example of why I believe that we will be able, long term, to operate in a more consolidated fashion across the country is that we have severe imbalances in all these 50 offices in the number of assets. We have some offices where project managers are responsible for over 200 assets, and in other parts of the country, they're responsible for 30 assets per project manager. So what you see is just a vast imbalance of workload.

We're trying in a whole variety of ways to balance that out. But one long-term way of doing it is consolidating the personnel into larger geographic areas so that they can share that work more evenly and stay within our very severe budget constraints. At the same time, given how we are in an electronic world, we believe that through technology and through other means, including travel, we will ensure that customers are served in all locations.

Senator MURRAY. And they know the areas that—

Ms. GALANTE. In local areas. And we'll have specialized teams within these larger consolidated teams with local knowledge and connections to the local community.

Senator MURRAY. I appreciate that very much.

ADDITIONAL COMMITTEE QUESTIONS

I do want to remind my colleagues that we're going to leave the hearing record open for 1 week for additional questions.

I thank both of you for appearing before this subcommittee today.

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

QUESTIONS SUBMITTED TO HON. CAROL GALANTE

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

CONSOLIDATION OF THE OFFICE OF MULTIFAMILY HOUSING

Question. Federal agencies must always be frugal. And they must use taxpayer dollars responsibly. But in the current budget environment, it's even more important for agencies to think of reforms to make sure that every dollar of the taxpayers' money is being used as wisely as possible. This consolidation will have an impact on the employees at field offices across the country, and the Americans who rely on the work that they do. How did you determine that consolidating down to five hubs and five satellite offices was the best way to achieve your efficiency goals?

Answer. Please see the end of this response for several exhibits that illustrate this explanation of the decision to consolidate to five hubs and five satellite offices. The current field structure has 17 hubs and employees in over 50 field offices. This structure leads to five key areas of concern:

- Unmanageable spans of control at the top of the organization. Currently, the Multifamily deputy assistant secretary (DAS) has nearly 25 direct reports, with 17 hubs and 6 headquarter (HQ) functions (see Exhibit 1);
- Inconsistent operations across 50+ locations, leading to inconsistent customer service across geographies (particularly for our largest customers), and inhibiting effective risk management (see Exhibit 2);

- Misalignment between Multifamily's structure and the established Federal regions, leading to inconsistent coordination between Multifamily and the rest of the Department of Housing and Urban Development (HUD);
- Over 4x workload imbalance across hubs in Production, and 3x in Asset Management (worse within individual offices), leading to long queues in some markets and underused staff in others (see Exhibit 3); and
- Low spans of control in many field offices (e.g., one manager over two staff), creating unnecessary layers and stifling employee engagement.

The proposed structure will directly address each of these failures in the following ways:

- The new five-hub model significantly reduces the number of direct reports to headquarters, making management of the field organization simpler and more streamlined (see Exhibit 4);
- Consolidating to 10 locations enables greater consistency in Multifamily's operations, enabling us to deliver more consistent service to our customers while more consistently managing the risk of the entire Multifamily portfolio;
- The new five-hub model is more in line with the established Federal regions, which will allow for better coordination between Multifamily and the rest of HUD (see Exhibit 5);
- Workload across each of the five regions will be more evenly distributed; each region will handle a similar volume in both Production and Asset Management (see Exhibit 6); and
- The reorganization will produce greater spans of control—in line with HUD policies and Federal standards—ensuring all locations operate at scale, allowing us to make the most of scarce financial resources.

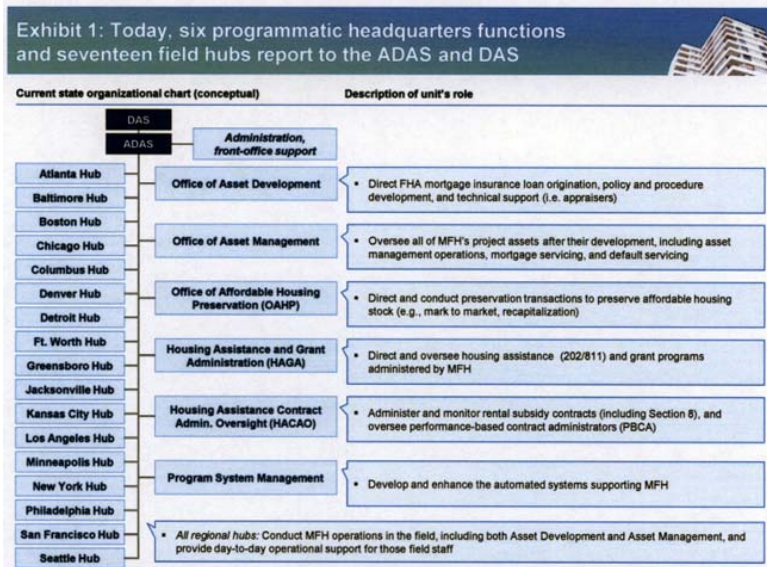


Exhibit 2: MFH's field offices are organized into 17 hubs that oversee 50 locations

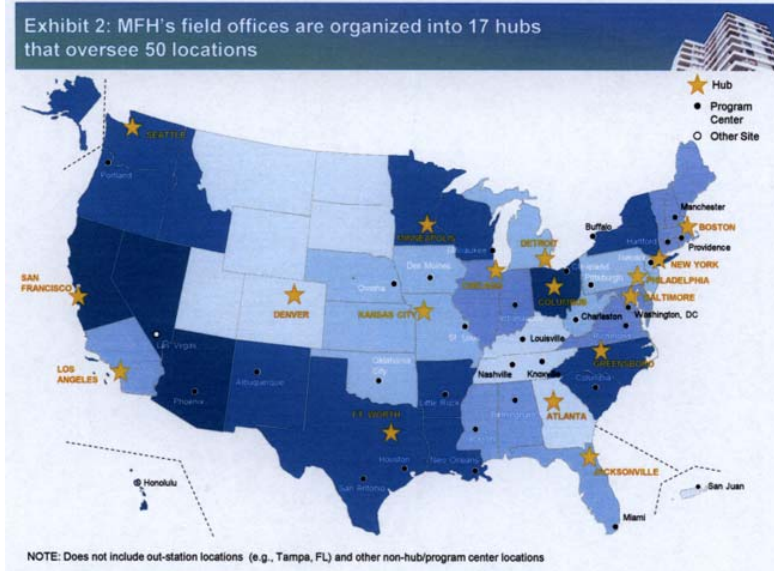


Exhibit 3: Uneven workload balances today in Production and Asset Management

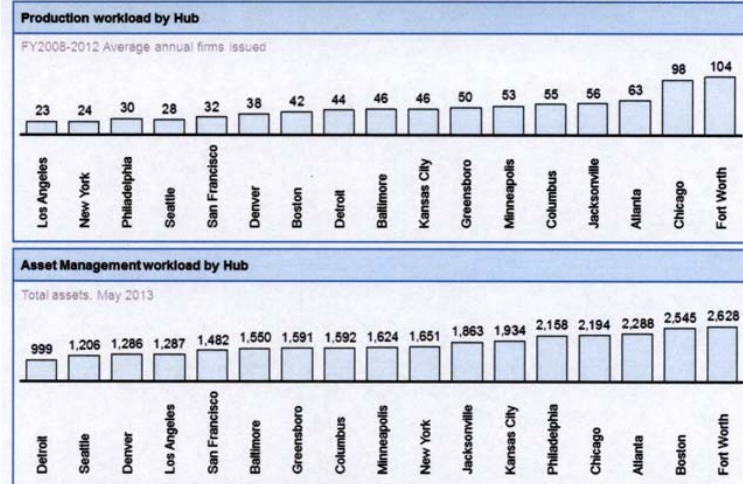


Exhibit 4: Office of Multifamily Housing Programs Proposed Organization Chart

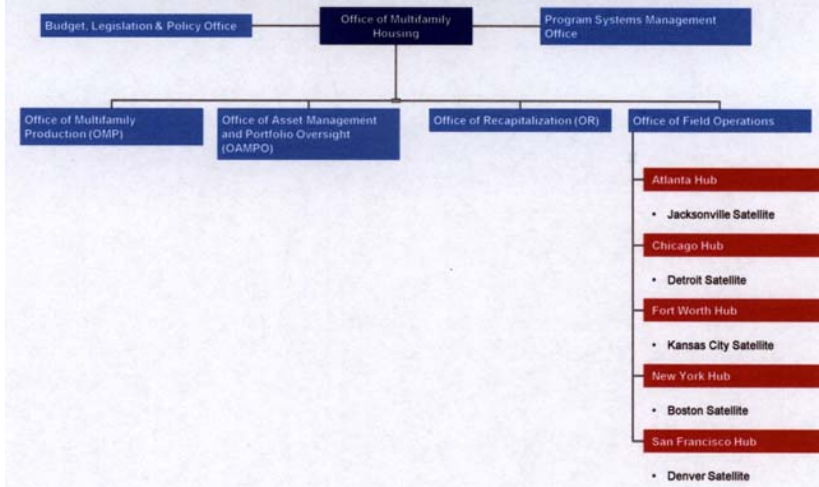
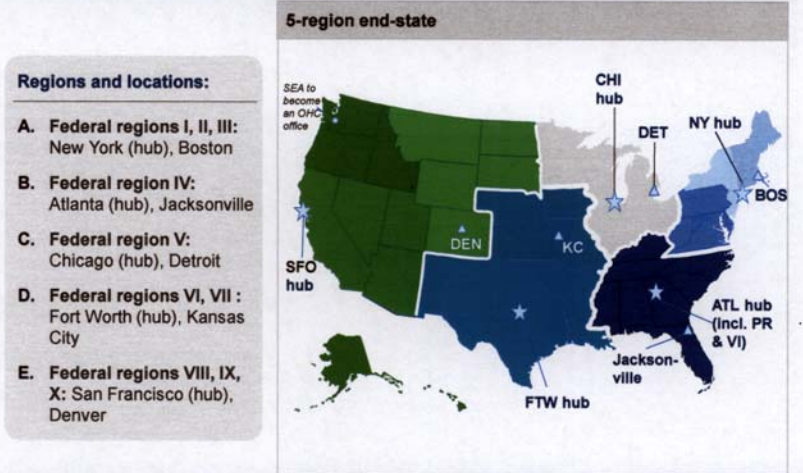
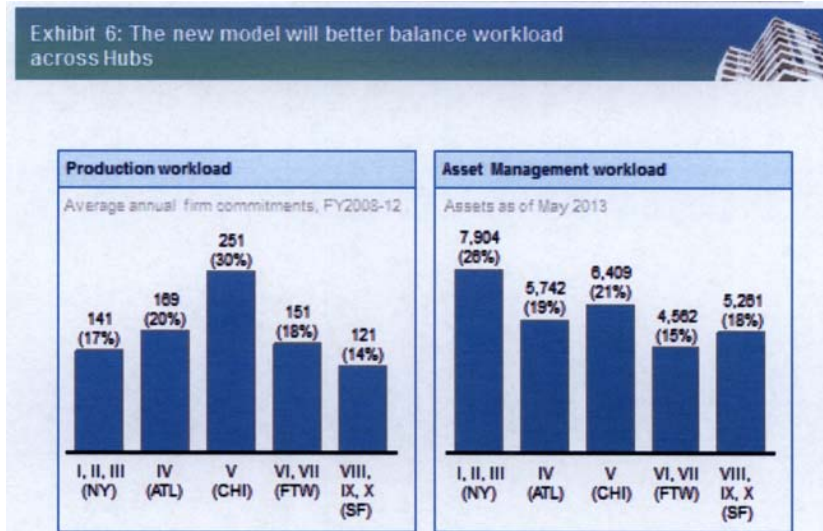


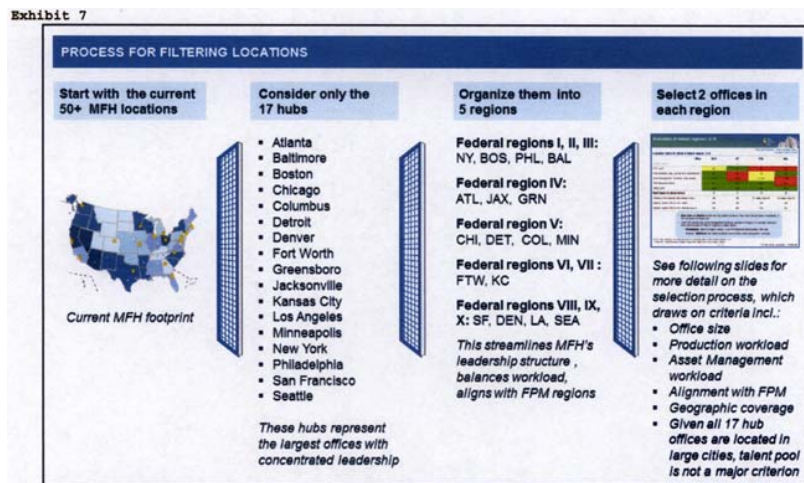
Exhibit 5: We are moving to a 5-region, 10-location field structure





Question. How was the decision made to close the HUD Maryland Office of Multifamily Housing and all the offices in Region 3?

Answer. Within this response are two exhibits that illustrate this explanation, including a detailed breakdown of the comparison of Boston, New York, Philadelphia, and Baltimore. First, it is worth noting the Multifamily is not closing any HUD field offices; other HUD staff will remain in the Baltimore field office. However, we do understand the concern about consolidating Multifamily's field structure, which means that Multifamily staff will relocate from the Baltimore office. To determine which 10 offices would serve as the future Multifamily hub and satellite offices, we first began by only considering locations that were already hubs (see Exhibit 7).



In order to then streamline the Multifamily leadership structure, balance workload, and align with Field Policy and Management (FPM) regions, we then organized the hub offices into five geographic regions: the first covers Federal regions I, II, and III (the Boston, New York, Philadelphia and Baltimore offices); the second covers Federal region IV (the Atlanta, Jacksonville, and Greensboro offices); the third covers Federal region V (the Chicago, Detroit, Columbus, and Minneapolis of-

fices); the fourth covers Federal regions VI and VII (the Fort Worth and Kansas City offices); and the fifth covers Federal regions VII, IX, and X (the San Francisco, Denver, Los Angeles, and Seattle offices) (see again Exhibit 7).

Finally, we compared offices from within the proposed five regions based on several factors: the full-time equivalent (FTE) count in each; the Production workload (average annual firm commitments); the Asset Management workload (total assets); and whether an FPM Regional Administrator sat in that office (see again Exhibit 7).

In determining which two offices to select from Federal regions I, II, and III, we ranked Boston, New York, Philadelphia, and Baltimore against each other based on these criteria. Based on these criteria, Baltimore and Philadelphia were ranked lower than other offices in the new Multifamily region (see Exhibit 8).

Exhibit 8

Evaluation matrix for offices in federal regions I, II, III				
Office:	BOS	NY	PHL	BAL
Federal Region	I	II	III	III
Office size: FTE count	40	57	30	32
Prod workload: Avg. annual firm commitments ¹	42	24	30	46
Asset Management workload: Total assets ²	2,545	1,651	2,158	1,550
FPM Regional Admin	Yes	Yes	Yes	No
Geographic coverage: Highest ranked office in state	NA	NA	NA	NA
Rank based on above factors	1	1	3	4

NOTE: High, Medium, Low rankings based on comparing offices within federal regions I, II, III
¹ FY2009-2012 Average annual firms issued
² May 2013

Question. What will be the effect on HUD's processing of multifamily loans and the review of projects during consolidation and after it?

Answer. We believe that this transformation will improve the way we do business by enhancing our efficiency, risk management, and consistency—which will in turn improve our ability to deliver on our mission of providing affordable housing.

Prior to the consolidation of field offices, we will roll out workload sharing nationally across Multifamily offices. Once consolidation begins, workload sharing will allow us to take work “offline” from impacted offices and move it to other areas of the country in order to ensure continuity of operations and excellent customer service.

As we complete the implementation of each wave, all Multifamily loans will be reviewed through a formalized “risk-based processing” approach that segments incoming applications based on risk and complexity. Staff will be assigned to applications based on the particular expertise and experience that assessing those loans will require. More experienced underwriters will process riskier, more complex applications. These underwriters will oversee an end-to-end review of each application, continuing to draw in technical experts such as construction analysts and appraisers as needed. While our staff already considers risk and complexity in their work, we believe that formalizing this process will improve the consistency of our risk management and service delivery. This process complements tools introduced in the Breaking Ground initiative like the “Early Warning System,” which allowed Production staff to rapidly identify applications that required further review by the submitter before being processed.

In addition to clarifying roles, we will also be identifying opportunities to streamline the underwriting process to ensure that simple applications are not being over-processed. We believe that this approach to Production will improve risk management by focusing expert attention on the most challenging applications, improve customer service by providing a clearer point of contact and more streamlined processing, and improve the overall efficiency of Multifamily's Production operations. This model has already proven successful in the Rental Assistance Demonstration and Low-Income Housing Tax Credit pilot. Many field offices are already experimenting with variants of this model, and through the Transformation we will formalize it and make it more consistent.

A similar approach will also be adopted in Asset Management, whereby complex and troubled assets will be assigned to Multifamily's most expert staff. This approach is again consistent with the risk-based approach introduced to Asset Management by Sustaining Our Investments. We will continue conducting on-site in-

spections and reviews as required by our policies and procedures. Today, we already manage assets and review applications from around the country, even when we have no nearby field office. We plan to continue this approach in the future.

Question. How will this consolidation affect smaller banks and lenders?

Answer. Like all Multifamily stakeholders, smaller banks and lenders will continue to have the same level of access to dedicated Multifamily staff that they have today. Due to shorter processing times and improved consistency across sites, banks and lenders should expect improved customer service from Multifamily.

Question. I understand that you have promised the employees transparency and that you will keep them informed of changes; what steps have you taken, and what will you do as the process continues, to make sure that employees are kept up-to-date on the consolidation?

Answer. In order to maintain an open dialogue between leadership and staff, the leadership at HUD and within Multifamily has conducted an extensive series of in-person, on the phone, and Web casts with staff. So far, this has included over two dozen different interactions, including 10 visits to field offices across the country. Multifamily leadership plans to continue these conversations into the foreseeable future. After the initial announcement, FHA Commissioner Carol Galante and Deputy Assistant Secretary Marie Head conducted a series of conference calls with each hub, during which they answered questions and collected feedback. Secretary Donovan, Deputy Secretary Jones, Commissioner Galante, and Deputy Assistant Secretary Head are all conducting site visits to field offices to meet with and take questions from Multifamily staff in person. During several biweekly conversations with the Deputy Secretary, which are broadcast every other Friday, the Deputy Secretary has provided answers to frequently asked questions and has hosted subject matter experts to describe employee options for relocating, buyouts and early retirement.

Multifamily is committed to providing “on demand” resources to staff. We have created dedicated Web sites on HUD.gov and on the internal HUD@work site. We also continue to track incoming questions from individual employees, and regularly update the Questions and Answers found online¹. Finally, we have set up a call center in the Office of Housing that directs employees to the appropriate subject matter experts.

We are preparing local supervisors to hold conversations with individual staff members regarding their relocation destination, so that employees know, to the maximum extent possible, where we are proposing to relocate them. Once union negotiations are complete, we will launch a new series of communications with employees in order to inform them of the outcomes of negotiations and to provide individuals with the location of their directed reassignments and the timing of buyout offers.

We expect that this regular cadence of communications will continue throughout the multi-year implementation of the transformation, as we remain committed to informing staff of the latest developments.

CONCLUSION OF HEARINGS

Senator MURRAY. This hearing is recessed until Thursday, June 13, at 10 a.m. We’ll have a hearing on our need to invest in our Nation’s transportation infrastructure.

So thank you again to both of you.

[Whereupon, at 3:55 p.m., Tuesday, June 4, the hearings were concluded, and the subcommittee was recessed, to reconvene at 10 a.m., Thursday, June 13.]

¹ http://portal.hud.gov/hudportal/documents/huddoc?id=052813TrnsfrmMF_FAQs.pdf.

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2014

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

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—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 2014 budget request for programs within the subcommittee's jurisdiction.]

CONGRESSIONAL WITNESS

PREPARED STATEMENT OF REPRESENTATIVE RICK LARSEN, U.S. REPRESENTATIVE
FROM WASHINGTON, 2ND DISTRICT

Thank you for the opportunity to submit testimony to the Senate transportation appropriations subcommittee on the need for investment in our country's infrastructure. Chairman Murray has been a leader on this issue for many years, and I appreciate her continuing focus on this issue.

The recent collapse of the I-5 bridge across the Skagit River offers an example of the worst case scenario when we fail to adequately invest in infrastructure. I am hopeful that Congress will learn from this near-tragic incident.

A couple weeks ago, Dan and Sally Sligh packed up their camper and headed out on Interstate 5 on the way to their favorite campsite in northwest Washington State. While crossing a bridge over the Skagit River they had safely crossed many times before, a large truck ahead of them clipped the frame of the bridge above.

Without warning, and without time to react, the pavement under Dan's pickup fell from under them. Next, Dan said, "It was just a white flash and cold water." Like thousands of constituents, I myself have driven across that bridge hundreds of times. But today no cars are crossing it.

Recovery workers have been working hard pulling pieces of that bridge, along with Dan's pickup, from the flowing waters of the Skagit River, and quickly building a replacement span. The fact that no one died in this collapse is a blessing. But not all have been so lucky. I'm sure the subcommittee will recall the 2007 bridge collapse in Minneapolis that killed 13 people and injured another 145.

I would ask the subcommittee to consider a simple question: Should Americans be able to drive across a highway bridge with the reasonable expectation that it will not crumble away from underneath them?

While the National Transportation Safety Board is continuing its investigation into all the facts of the bridge collapse, what we already know about our aging infrastructure should be enough to make this Congress act.

Sixty-seven thousand bridges in our country are rated structurally deficient. When those bridges fall, it isn't just the unlucky few on those bridges who suffer. Whole economies that rely on safe and efficient transportation suffer.

The I-5 bridge over the Skagit River doesn't just connect Burlington and Mount Vernon. It connects the entire West Coast and carries millions of dollars' worth of trade between Canada and the United States. Today that trade is in stop-and-go traffic on local roads.

The good news is that we know how to build safe bridges. Thousands of civil engineers devote their lives to building good structures that don't fall down. But we need to pay for them. We need to maintain our bridges until they are old, and then we need to replace them. We can't keep waiting until they crumble into the water below.

But if we're really going to do something about our long-term transportation needs, Congress needs to get to work on a long-term transportation bill that doesn't just patch our aging roads, but invests in an infrastructure that meets the needs of America's 21st century economy.

It's time to put our money where our safety is. I look forward to working with you to make sure that we do so.

NONDEPARTMENTAL WITNESSES

LETTER FROM THE ADVOCATES FOR HIGHWAY AND AUTO SAFETY, ET AL.

JUNE 17, 2013.

Hon. PATTY MURRAY,
Chair, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies,
Washington, DC.

Hon. SUSAN COLLINS,
Ranking Member, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies,
Washington, DC.

Dear Madam Chairman: As families who have lost loved ones in large truck crashes, victims who have survived large truck crashes, leading national safety organizations and truck drivers, we want to express our gratitude for your leadership in holding the Appropriations Subcommittee on Transportation, Housing and Urban Development and Related Agencies hearing, "Crumbling Infrastructure: Examining the Challenges of Our Outdated and Overburdened Highways and Bridges." We respectfully request that this letter be submitted to the hearing record.

The recent collapse of the Interstate 5 bridge in your home State of Washington brought the need to address the declining condition of our Nation's infrastructure to the forefront of the debate over adequate care and investment in our roads and bridges. Initial reports from the National Transportation Safety Board (NTSB) indicate the collapse resulted from an oversized tractor-trailer striking an overhead truss structure. This catastrophe highlights a growing safety risk to the public and demonstrates the critical need for Congress to strongly resist constant efforts to allow bigger, heavier and longer trucks on our highways.

Truck crash fatalities are on the rise. In 2011, over 3,700 people were killed and 88,000 were injured on U.S. highways in large truck crashes. Additionally, in 2010, large truck crash fatalities increased by 9 percent to 3,675 deaths, despite an overall decline in motor vehicle deaths during the same year. Allowing larger, heavier trucks will further burden our bridges and roads, endanger the motoring public including truck drivers, as well as strain our wallets. The annual cost to society from crashes involving large trucks is estimated to be nearly \$42 billion. This is an unnecessary and preventable loss of lives and dollars.

By overwhelming margins in public opinion polls, the American public has consistently opposed any increases in the size and weight of large trucks. A May 2013 Lake Research Partners public opinion poll reiterated this, showing that 68 percent oppose heavier trucks and 88 percent of Americans do not want to pay higher taxes for the damage caused by heavier trucks. The consistent and broad opposition to bigger, heavier trucks is based on the public's clear understanding about the safety consequences that tragically are demonstrated in preventable truck crash fatalities and injuries occurring every day on our Nation's roadways. Sharing the road with overweight and oversized trucks is dangerous to motorists involved in a crash as well as when bridges fail. In 2007 the devastating collapse of the Interstate 35 bridge in Minneapolis tragically killed 13 people and injured 145 more innocent motorists.

The well-financed lobbying efforts by special industry interests to push for bigger and heavier trucks, regardless of the human and economic consequences, are relentless as well as disingenuous. Claims that allowing increases in truck size and weight limits will lead to fewer trucks is wrong and has never occurred when Congress or States have given in to industry pressure. The catastrophic annual toll of deaths and injuries in large truck crashes and the threat to bridge and roadway safety highlighted by the recent bridge collapse in Washington State as well as the 2007 I-35 bridge collapse serve to validate concerns that the public and truck crash victims have regarding truck safety. History has demonstrated that every time truck weights increase, more trucks occupy our roads. For example, after the 1982 Surface Transportation Assistance Act (STAA) pre-empted State size and weight limits on federally funded interstate highways, and in 2010 when the Federal weight limit on Maine and Vermont interstates was increased, truck traffic grew significantly. Despite this reality, Congress will again be asked to look the other way and legislate increases in truck size and weight limits as the discussions begin on the next surface transportation reauthorization bill.

The American Society of Civil Engineers (ASCE) currently rates the Nation's bridges at a C+. Other studies have documented billions of dollars needed to address the backlog of road and bridge repairs facing our Nation. We cannot continue

to wait for events like the bridge collapses in Washington and Minnesota to bring attention and action to the dire state of the Nation's infrastructure. Overweight trucks create a disproportionate level of this damage, and as axle weight rises even in small increments, the resulting damage increases disproportionately at a rapid rate. In the case of the I-35 bridge in Minnesota, a leading factor in that bridge's collapse was found to be loading. The loading which contributed to that bridge collapse resulted from a combination of construction materials and traffic, and can also result from increases in truck weights.

If truck weights are increased from 80,000 to 97,000 pounds, the overall weight on a bridge would be magnified substantially when multiple trucks are on the bridge each carrying 17,000 more pounds. Five trucks simultaneously traveling over a bridge would result in 85,000 additional pounds on the bridge. On one of our Nation's more than 70,000 structurally deficient bridges, this may potentially exceed the bridge's loading capacity. Our Nation's leaders must heed the Washington and Minnesota bridge collapses as a wakeup call and act swiftly to take the necessary legislative action to prevent further tragedies of this nature from occurring.

In the interests of public safety, the protection of our infrastructure, and the preservation of our dwindling tax revenues and our environment, it is crucial for Congress to resist attempts to ratchet up truck sizes and weights. According to the Federal Highway Administration, there are 66,749 structurally deficient bridges and 84,748 functionally obsolete bridges throughout the United States. With so many bridges requiring critical maintenance and repair, there are simply not enough resources to address even a fraction of the problem, let alone to shoulder the additional costs that bigger, heavier trucks will impose.

Thank you for your continuing leadership in addressing highway deaths and injuries. We look forward to continuing to work with you in advancing safety.

Sincerely,

*Jacqueline Gillan,
President, Advocates for Highway
and Auto Safety.*

*Fred McLuckie,
Legislative Director, International
Brotherhood of Teamsters.*

*Daphne Izer,
Founder, Parents Against Tired
Truckers, mother of Jeff Izer who
was killed in a truck crash 10/10/
93.*

*Joan Claybrook,
Co-Chair, Citizens for Reliable and
Safe Highways.*

*John Lannen,
Executive Director, Truck Safety Coa-
lition.*

*Lawrence Liberatore,
Board Member, Parents Against
Tired Truckers, father of Nick
Liberatore who was killed in a
truck crash 6/9/97.*

*Jennifer Tierney,
Board Member, Citizens for Reliable
and Safe Highways, Member, Fed-
eral Motor Carrier Safety Adminis-
tration's (FMCSA's) Motor Carrier
Safety Advisory Committee, daugh-
ter of James Mooney who was
killed in a truck crash 9/20/83.*

*Jane Mathis,
Board Member, Parents Against
Tired Truckers, Member, FMCSA's
Motor Carrier Safety Advisory
Committee, mother to David
Mathis and mother-in-law to Mary
Kathryn who were killed in a truck
crash 3/25/04.*

*Wanda Lindsay,
Founder, The John Lindsay Founda-
tion, seriously injured in a truck*

crash 5/7/10, wife of John Lindsay who died on 5/9/10 following a truck crash.

*Linda Wilburn,
Board Member, Parents Against Tired Truckers, mother of Orbie Wilburn who was killed in a truck crash 9/2/02.*

*Roy Crawford,
Underride Network, father of Guy "Champ" Crawford who was killed in a truck crash 1/12/94.*

*Tami Friedrich Trakh,
Board Member, Citizens for Reliable and Safe Highways, Member, FMCSA's Motor Carrier Safety Advisory Committee, sister to Kris Mercurio, sister-in-law to Alan Mercurio, aunt to Brandie Rooker and Anthony Mercurio who were killed in a truck crash 12/27/89.*

*Dawn King,
Board Member, Citizens for Reliable and Safe Highways, daughter of Bill Badger who was killed in a truck crash 12/23/04.*

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 collectively are 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 2014.

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 2014 budget request and to support the goal 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 U.S. institutions of higher education, must periodically undergo stringent performance reviews to retain their accreditation status. TCUs fulfill additional roles within their respective reservation communities functioning as community centers, libraries, tribal archives, career and business centers, economic development centers, public meeting places, and child and elder care centers. Each TCU is committed to improving the lives of its students through higher education and to moving American Indians toward self-sufficiency.

TCUs have advanced American Indian and Alaska Native (AI/AN) higher education significantly since we first began four decades ago, but many challenges remain. Tribal Colleges and Universities are perennially underfunded, and remain some of 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 and regularly highlighted in

the mainstream media. Rather, they are some of the poorest governments in the country and Tribal Colleges and Universities are home to some of the most disadvantaged counties in America. In fact, 7 of the Nation's 10 poorest counties are home to a TCU. The U.S. Census Bureau, American Community Survey specifies the annual per capita income of the U.S. population as \$27,100. However, the annual per capita income of AI/ANs is just \$13,300, about half that of the general population.

The Federal Government, despite its direct trust responsibility and treaty obligations, has never fully funded the TCUs institutional operating budgets, authorized under the Tribally Controlled Colleges and Universities Assistance Act of 1978. Currently, the administration requests and Congress appropriates over \$200 million annually toward the institutional operations of Howard University (exclusive of its medical school), the only other Minority Serving Institution (MSI) that receives institutional operations funding from the Federal Government. Howard University's current Federal operating support exceeds \$19,000 per student. In contrast, most TCUs are receiving \$5,665 per Indian Student (ISC) under the Tribal College Act, about 70 percent of the authorized level. TCUs have proven that they need and deserve an investment equal to—at the very least—the congressionally authorized level of \$8,000 per Indian student, which is only 42 percent of the Federal amount now appropriated for operating Howard University. It is important to note that although about 17 percent of the TCUs' collective enrollments are non-Indian students living in the local community, TCUs only receive Federal funding for operations based on Indian students, which are defined as members of a federally recognized tribe or a biological child of a tribal member. Please understand that we are by no means suggesting that Howard University does not need or deserve the funding it receives, only that the TCUs also need and deserve adequate institutional operations funding; however, their operating budgets remain grossly underfunded.

While TCUs do seek funding from their respective State legislatures for their students that are non-Indian State residents (sometimes referred to as "non-beneficiary" students) 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 day-to-day operations. Given their locations, often hundreds of miles from another postsecondary institution, TCUs remain open to all students, Indian and non-Indian, believing that education in general, and postsecondary education in particular is the silver bullet to a better economic future for their regions.

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.

Inadequate funding has left many TCUs with no choice but to continue to operate under severely distressed conditions. The need for HUD-TCUP funding remains urgent for construction, renovation, improvement, and maintenance of key TCU facilities, such as basic and advanced science laboratories, computer labs, and increasingly important student housing, day care centers, and community services facilities. Although the situation has greatly improved at many TCUs in the past several years, some TCUs still operate—at least partially—in donated and temporary buildings. Few have dormitories and even fewer have student health centers. 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 created a mold problem in the area referred to at the college as the "Hall of Buckets." HUD grant funds were also used to complete a renovation on its learning center, correcting major deficiencies, including recurring sewer and water problems, handicap accessibility issues, lack of effective safety/security measures (surveillance and alarm systems), and outdated washroom facilities.

JUSTIFICATIONS

Department of Housing and Urban Development.—Executive Order 13592 addressing American Indian education and strengthening of Tribal Colleges and Univer-

sities holds Federal agencies accountable to develop plans for integrating TCUs into their various programs. TCUs work with tribes and tribal 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 the strengthening of the TCUs, including their physical plants and ensuring 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 TCUs.

PRESIDENT’S FISCAL YEAR 2014 BUDGET

The President’s fiscal year 2014 budget request does not provide funding for the University Community Fund, which housed the TCU program and other Minority-Serving Institutions programs. We respectfully request that the subcommittee reject the administration’s recommendation and continue to recognize the abundant need for facilities construction and improvement funds for TCUs and appropriate funding for the Tribal Colleges and Universities Program, and the other MSI–HUD programs, namely: Historically Black Colleges and Universities; Hispanic Serving Institutions Assisting Communities; and Alaska Native and Native Hawaiian Serving Institutions Assisting Communities, to be allocated competitively within their individual programs.

CONCLUSION

We respectfully request that beginning in fiscal year 2014, 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 dynamic 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 2014 HUD appropriations requests.

PREPARED STATEMENT OF THE AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

Madam Chairman and members of the subcommittee, on behalf of the American Public Transportation Association (APTA), I thank you for this opportunity to submit written testimony on the fiscal year 2014 Transportation, Housing and Urban Development, and Related Agencies appropriations bill, as it relates to Federal investment in public transportation and high-speed and intercity passenger rail.

With the passage of a new, 2-year surface transportation authorization bill—Moving Ahead for Progress in the 21st Century Act (MAP–21)—APTA’s focus shifted from reauthorization legislation to ensuring the authorized programs are adequately funded. Federal investment in infrastructure is necessary for a variety of reasons, all of which lead back to supporting the economy and domestic job creation. Funding from the Federal Government leverages State and local resources and allows local governments and transit agencies to access capital markets, providing the resources necessary to build, replace, and repair infrastructure.

Americans took 10.5 billion trips in 2012, the second highest ridership since 1957, and 154 million more trips than the prior year. This was the seventh year in a row that more than 10 billion trips were taken on public transportation systems nationwide. And these ridership levels were achieved despite the impact that Superstorm Sandy had on transit service in the Northeast. With demand for transit only growing, investments will continue to be required to get people to school, work and play, and in turn, provide jobs in construction, maintenance, and all the related industries required to support public transportation.

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 2014 FUNDING REQUESTS

The Moving Ahead for Progress in the 21st Century Act (MAP-21) authorizes \$10.695 billion for the Federal Transit Administration's (FTA's) programs and expenses, with \$8.595 billion of that provided from the Mass Transit Account of the Highway Trust Fund—which is financed with public transportation's share of Federal motor fuel tax revenues. The remaining \$2.1 billion, used to fund New Starts, Research, the Transit Cooperative Research Program (TCRP), Technical Assistance, FTA Administration, and a handful of additional programs, must be appropriated from General Fund revenues. Given the current state of infrastructure and the upward trend in demand for public transportation services, APTA urges Congress to appropriate full funding to each program as authorized under MAP-21.

Beyond FTA appropriations, we again urge Congress to appropriate funding for the Rail Safety Technology Grants program (section 105) of the Rail Safety Improvement Act (RSIA), 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 for commuter railroads.

MAP-21 AND THE CONTINUING NEED FOR FEDERAL TRANSIT INVESTMENT

The new surface transportation law, MAP-21, provided a needed respite from years of authorization extensions, combined with appropriations continuing resolutions that resulted in significant funding uncertainty among transit agencies. Public transportation systems and projects require long-term funding certainty in order to plan major capital projects and procure assets such as rail cars, buses and facilities. While the 27 months of authority have helped to stabilize the situation, MAP-21 provided for only modest growth after years of essentially flat funding. The investment levels included in the bill were far from what is required to bring our systems into a state of good repair, much less to expand service to meet growing demands. In previous testimony to this subcommittee, APTA has cited U.S. Department of Transportation estimates that a one-time investment of \$78 billion is needed to bring currently operating transit infrastructure up to a state of good repair, and this does not include annual costs to maintain, expand or operate the existing system. Research on transit needs shows that capital investment from all sources—Federal, State, and local—should be doubled if we are to prepare for future ridership demands. The administration's \$50 billion proposal would go a long way toward accomplishing our state of good repair objectives.

In their 2013 Report Card for America's Infrastructure released recently, the American Society of Civil Engineers (ASCE) gave the U.S. public transportation infrastructure a "D" grade for the Nation's lack of investment. This grade drives home a sense of urgency for our Nation to focus on increased investment in public transportation. The rating is virtually unchanged from 4 years ago, which was the last time ASCE examined the state of America's infrastructure. The "Failure to Act" report also emphasizes that the American economy lost \$90 billion in 2010 due to the lack of investment in public transportation. The report also shows that, despite ridership gains and a clear and increasing demand for public transportation service, 45 percent of Americans still lack access to public transit in their communities.

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. 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. We must make significant, long-term investments in public transportation or we will leave Americans with limited transportation options, and in many cases, stranded without travel options. While Congress continues to consider how to proceed on a well-funded, multi-modal surface transportation bill, it remains critically important that annual appropriations bills address both current and growing needs.

FEDERAL TRANSIT ADMINISTRATION PROGRAMS

Capital Investment Grants (New Starts).—The New Starts program is the primary source of Federal investment in the construction or expansion of heavy rail, light rail, commuter rail, bus rapid transit and ferryboat projects. Across the country, demand for Federal assistance continues to outweigh currently authorized funding and resources, and New Starts funding is more important than ever with the expanded eligibility for Core Capacity projects. Unlike the core FTA formula programs, the New Starts program is funded from the General Fund, not the Mass Transit Account of the Federal Highway Trust Fund. The program as reformed by MAP-21 includes a streamlined approval process, but even with the reforms, projects will continue to face the most robust Federal review process of any Federal infrastructure investment program and authorized funding remains short of demand. APTA asks Congress to appropriate funding for the New Starts program at or above the MAP-21 authorized levels.

Transit Research/Transit Cooperative Research Program (TCRP)/Technical Assistance and Standards Development.—APTA strongly urges the committee to fully fund the Research, Development, Demonstration, and Deployment Program, the Transit Cooperative Research Program (TCRP), Technical Assistance and Standards Development, and Workforce Development at the authorized levels, or at a minimum at the requested levels in the administration's fiscal year 2014 budget.

In particular, APTA urges Congress to recognize the great value and benefits represented in the TCRP. The TCRP is an applied research program that provides solutions to practical problems faced by transit operators. Over the TCRP's 20 years of existence, it has produced more than 500 publications/products on a wide variety of issues of importance to the transit community. TCRP 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. TCRP generates significant benefits and large economic returns on investment, and it does this with a budget that is 1/10,000 of the \$57 billion governments spend annually on public transit services, and even an even smaller ratio when compared with the total benefits that transit service improvements provide to users, communities and the economy. TCRP costs will be repaid many times over if the program produces even small cost savings, service quality improvements, ridership gains, increases in transport system efficiency, or additional economic development.

FEDERAL RAILROAD ADMINISTRATION PROGRAMS

As Congress begins to consider reauthorizations of the Rail Safety Improvement Act (RSIA) and the Passenger Rail Investment and Improvement Act (PRIIA), there are two important programs APTA wishes to emphasize as priorities for the industry.

Positive Train Control.—A high priority for APTA within the programs of the Federal Railroad Administration (FRA) is the adequate funding for implementation of Positive Train Control (PTC) through the Railroad Safety Technology Grants Program, section 105 of RSIA. The RSIA requires that all passenger rail operators, as well as certain freight railroads, implement positive train control PTC systems by December 31, 2015. The cost of implementing PTC on public commuter railroads alone is estimated to exceed well over \$2 billion, not including costs associated with acquiring the necessary radio spectrum or the subsequent software and operating expenses. APTA urges Congress to appropriate a minimum of \$50 million, the annual authorization included under RSIA. APTA urges the subcommittee to direct these funds to commuter rail implementation of PTC, and to fund those systems that plan to implement before the deadline.

As the installation of PTC on nearly 4,000 locomotives and passenger cars with control cabs, and 8,000 track miles progresses, costs are beginning to mount. The total cost of implementation on commuter railroads is expected to far exceed initial estimates, with estimates doubled in some cases. Meanwhile, Congress has appropriated only \$50 million of the \$250 million that was authorized. A federally mandated deadline, coupled with virtually no Federal funding is forcing agencies to commit extremely limited capital budgets to implement PTC. Commuter railroads that

have begun to install PTC are facing difficult choices as some will have to defer critical safety sensitive infrastructure maintenance projects to pay for PTC. As a group, these railroads have worked in good faith to comply with the act's requirements. Additional funding provided by Congress for the Railroad Safety Technology grants is fundamental to the industry's ability to implement PTC.

High-Speed and Intercity Passenger Rail Investment.—APTA strongly supports continued investment in high-speed and intercity rail projects and services. The U.S. Census Bureau estimates that the U.S. population of our Nation will grow by more than 100 million over the next 40 years. Such increases will overwhelm America's aviation, road and existing rail transportation infrastructure. To accommodate the needs of an ever-growing and highly mobile population, the United States must develop and continually expand a fully integrated multimodal high-speed and intercity passenger rail (HSIPR) system. Investing in infrastructure ensures the efficient movement of people and goods that is essential to continued economic growth and other national policy goals. High-speed intercity passenger rail would ultimately serve both densely populated mega-regions as well as rural and small urban communities which will benefit from the increased transfer points and feeder services connecting with new high-speed rail corridors.

Passenger rail projects are advancing in 32 States and the District of Columbia, with each project supporting economic growth by creating construction and manufacturing jobs for American workers and attracting small businesses and new development that will generate domestic business growth. High-speed rail will create a revitalized domestic transportation industry supplying more products and services, with more dollars retained in our economy.

CONCLUSION

We thank the subcommittee for allowing us to share APTA's views on fiscal year 2014 public transportation and high-speed and intercity rail appropriations issues. APTA looks forward to working with the subcommittee as it makes investment decisions about the public transportation programs.

PREPARED STATEMENT OF THE AMERICAN PUBLIC WORKS ASSOCIATION

Madam Chairman and members of the Senate transportation appropriations subcommittee, thank you for the opportunity to submit testimony for the hearing, *Crumbling Infrastructure: Examining the Challenges of Our Outdated and Overburdened Highways and Bridges*.

My name is Elizabeth Treadway, president of the American Public Works Association (APWA). I submit this statement today on behalf of our members.

The American Public Works Association is an organization whose members are dedicated to providing public works infrastructure and services to millions of people in rural and urban communities, both small and large. Working in the public interest, our 28,500 members and nearly 2,000 public agencies plan, design, build, operate and maintain our transportation, water supply, stormwater, wastewater treatment, waste and refuse disposal systems, public buildings and grounds and other structures and facilities essential to our economy and quality of life.

Local governments own about 75 percent of the nearly 4-million-mile roadway network and more than half of the Nation's bridges and manage about 90 percent of the transit systems. With nearly every trip beginning and ending on a local road, street or sidewalk, a strong local-State-Federal partnership is key to ensuring a safe, seamless and efficient multimodal transportation network.

We join others in expressing our deepest sympathy to everyone affected by the collapse of the Skagit River Bridge on May 23. We were saddened by this and offer our support to everyone working to recover and rebuild.

Like other bridges throughout the Nation, the Skagit River Bridge is a vital link in the transportation system. In the northwest, it is part of the main travel route between Seattle, Washington and Vancouver, British Columbia and averages 71,000 vehicles daily. The tragic collapse of this functionally obsolete span is a stark reminder of the aging and deteriorating condition of our Nation's public infrastructure, increasingly over-burdened by growing system demands and outdated infrastructure. It is suffering the effects of chronic underinvestment and is in critical need of funding for maintenance, repair and modernization.

The needs are clear and documented. The U.S. Department of Transportation (USDOT) reports that the Nation (all levels of government) invests roughly half of what is needed to improve the current state of our roads and bridges. Nearly one in four bridges nationwide is rated deficient and in need of repair, improvement or replacement. Of the more than 607,300 publicly owned bridges on which we depend

for personal mobility and movement of freight, nearly 151,500 are rated deficient, with more than 66,740 classified as structurally deficient and more than 84,740 as functionally obsolete.¹ Neither designation indicates a bridge is unsafe, but they do indicate a need for repair, improvement or replacement. The age of the average bridge is more than 40 years.

The importance of bridges cannot be ignored. Within the State of Washington there are over 65 million bridge crossings a day with approximately 10 million of these crossings occurring on locally owned bridges. While bridges are a small part of the total road miles, they provide vital links in the transportation system, not only spanning rivers but also separating traffic at rail crossings and highway to highway crossings. However, replacement and rehabilitation of these links are of significantly higher cost on a per mile basis than other aspects of the transportation system.

We can no longer afford to ignore the underinvestment in bridge maintenance, rehabilitation and replacement. Additional traffic volumes and heavier loads are placing ever greater stress on bridges often designed for lighter loads. Underinvestment is a major contributing factor undermining efforts to adequately address the deficiencies.

At the local level in particular, local governments' ability to fund necessary bridge improvements has eroded significantly over the years. Local governments have limited financial means to adequately address bridge deficiencies and typically do not have the capacity to do major repairs or capital work on the scale of bridge replacement without funding support. Immediate action to increase investment at the national level is crucial if we are to accelerate local bridge repair and replacement programs.

The needs at the local level are especially significant. Twenty-seven percent of local bridges are structurally deficient or functionally obsolete. Of that, 15 percent are structurally deficient as compared to 7 percent of State-owned bridges. Of the almost 67,000 structurally deficient bridges in our Nation, more than half of them are the responsibility of local government.

Bridges on local roads typically were built to accommodate lower traffic volumes and smaller, lighter vehicles or are so old and deteriorated they are in urgent need of repair or replacement. In many cases, they were not designed to take the pounding current traffic volumes and loads demand. As congestion increases on the interstate system and State highways, local roads become diversion routes, supporting ever increasing levels of usage. Freight volumes, too, are increasing, adding demands on all parts of the system.

Deficient local bridges are rated, prioritized and repaired or replaced as funding is available. When funding is insufficient, deferred maintenance, increased inspections, weight limits and closures are often the only options. It is not uncommon for bridges to go years, even decades, without the appropriate action to repair or replace them, due to lack of funds. This is particularly true in more rural areas.

APWA has been and will continue to be an advocate for the development of public policies which ensure the safe and efficient management and operation of our public infrastructure. We support a determined, comprehensive national effort to increase investment to eliminate the bridge funding backlog needed to repair, rehabilitate and replace all publicly owned bridges as part of a zero bridge deficiencies goal.

Such an effort, however, should not stop there. It needs sustained and sustainable funding to ensure ongoing system preservation and maintenance at a level necessary to prevent future deficiencies of all publicly owned bridges.

MAP-21, Moving Ahead for Progress in the 21st Century, provides a short-term, 2-year investment in our transportation system. With the Highway Trust Fund on the brink of insolvency, we urge the Congress to begin work immediately on a long-term authorization that provides a sustainable revenue source to avert a looming funding shortfall that threatens not only the ability to adequately address bridge deficiencies but also the many other pressing transportation needs. The Congressional Budget Office reports that the Trust Fund will be unable to meet all of its obligations beginning in fiscal year 2015. Inaction to address this shortfall could result in Federal transportation programs being cut by about 90 percent to bring the Trust Fund into balance.

¹The Federal Highway Administration defines structurally deficient bridges as those characterized by deteriorated conditions of significant bridge elements and reduced load-carrying capacity and typically require significant maintenance and repair to remain in service. A bridge is functionally obsolete when it does not meet current design standards either because the volume of traffic carried by the bridge exceeds the level anticipated when the bridge was constructed and/or the relevant design standards have changed. Addressing functional deficiencies may require the widening or replacement of the structure.

We support a well-funded, multi-year surface transportation authorization that provides an increased and sustainable funding source for road and bridge needs, strengthens local decisionmaking authority, directs more resources to local priorities and does more to streamline and accelerate the project delivery process.

In addition, we support a mix of revenue options to ensure necessary funding sustainability, including: raising and indexing the Federal motor fuel tax; exploring the transition to vehicle-mileage fees; and expanding access to innovative financing tools.

MAP-21 eliminated the Highway Bridge Program. MAP-21's National Highway Performance Program provides funding for bridges on the National Highway System (NHS). Although the Surface Transportation Program retains the 15 percent set-aside for off-system bridges (bridges not on the Federal system), we need to ensure adequate funding for local bridges on the Federal system but not on the NHS.

In conclusion, our transportation system is aging, deteriorating and suffering the effects of decades of underinvestment. The result is the unacceptably high levels of deficiencies we see today. We believe that, working together in partnership with local, State, Federal, and private sector partners, we must take immediate action to address our crumbling infrastructure. But it will take funding and leadership. Increased investment to repair or replace deficient bridges is vital to achieve a safer and more efficient transportation network.

Madam Chairman, we thank you for holding this hearing and are especially grateful to you and subcommittee members for the opportunity to submit this statement. We stand ready to assist you and the subcommittee as we move forward to address our Nation's infrastructure needs.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF CIVIL ENGINEERS

The American Society of Civil Engineers (ASCE)¹ is pleased to present to the subcommittee our views on the state of the Nation's infrastructure, as well as the challenges ahead and investments needed.

ASCE was relieved that there were no fatalities or serious injuries due to the I-5 bridge collapse. While we await to hear from the National Surface Transportation Safety Board as to the cause of the collapse, there are reports that an oversized vehicle may have played a significant role in the incident. What we do know is that the bridge is one of 84,748 functionally obsolete bridges in this country and served as a critical link to our economy and trade. Therefore, the ripple effect of the bridge collapse will have significant economic repercussions. In fact, the Director of the Washington State Department of Commerce said that the I-5 bridge collapse could cost the State of Washington at least \$47 million in lost economic output, as well as lost jobs and tax revenues.

2013 REPORT CARD FOR AMERICA'S INFRASTRUCTURE

ASCE's 2013 Report Card for America's Infrastructure graded the Nation's infrastructure a "D+" based on 16 categories and found that the Nation needs to invest approximately \$3.6 trillion by 2020 to maintain the national infrastructure in good condition. The following are the grades and the investment needs by 2020 for the surface transportation area:

- Bridges received a grade of C+;
- Transit received a D;
- Roads received a grade of D, and combined with bridges, and transit, have an estimated investment need of \$1.7 trillion; and
- Rail received a grade of C+ and has an estimated investment need of \$100 billion.

While taken for granted by most Americans, our infrastructure is the foundation on which the national economy depends. As the economy grows, these infrastructure assets must be maintained and improved accordingly. While the interstate highway system is a shining example of a focused national vision for the Nation's infrastructure, an ever expanding population and a growing economy requires these aging infrastructure systems to keep pace. Deteriorating and aging infrastructure is not only an inconvenience, it financially impacts our families, local communities, and our entire country.

¹ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 146,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a nonprofit educational and professional society organized under part 1.50(c)(3) of the Internal Revenue Code.

In an effort to see how significant investments are to the Nation's infrastructure, ASCE released a series of economic studies that answer a critical question—what does a “D+” mean for America's economy and what is the return on investment we can expect to see. The Failure to Act studies compare current and projected needs for infrastructure investment against the current funding trends in surface transportation (highways, bridges, rail, transit); water and wastewater; electricity; and airport and waterborne transportation. The series concluded with a final report, *Failure to Act: The Impact of Current Infrastructure Investment on America's Economic Future*, which found improving the condition of our Nation's aging roads, bridges, power lines, sewer systems, ports and waterways is critical to protecting 3.5 million jobs.

The final summary report found that between now and 2020, investment needs across key infrastructure sectors total \$2.75 trillion, while projected expenditures are about \$1.66 trillion, leaving a total investment gap of \$1.1 trillion. This gap leads to consequences like congestion, water main breaks, and blackouts and brown-outs that cost households and businesses money, creating a drag on our economy. However, with an additional investment of \$157 billion a year between now and 2020, the U.S. can eliminate this drag on economic growth and protect:

- \$3.1 trillion in GDP;
- \$1.1 trillion in U.S. trade value;
- 3.5 million jobs;
- \$2.4 trillion in consumer spending; and
- \$3,100 in annual household income.

In order to avoid the severe economic impacts that would be caused by failing to invest in our infrastructure at home, the Federal Government is allowing other countries to make up where the United States is failing. It is long established that money invested in essential public works can create jobs, provide for economic growth, and ensure public safety through a modern, well-engineered national infrastructure. By improving the Nation's deteriorating infrastructure system both economic and job creation opportunities will be provided, while creating a multi-modal transportation system for the 21st century.

HIGHWAY AND BRIDGE CONDITIONS

The health of our Nation's highways and bridges serves as a critical link moving people and goods throughout the country, therefore they are directly tied to the Nation's ability to compete in a global marketplace. For this reason, it is of growing concern that the bridges in our Nation's metropolitan areas, which are an indispensable link for both millions of commuters and freight on a daily basis, are decaying. Meanwhile, 42 percent of America's major urban highways remain congested, costing the economy an estimated \$101 billion in wasted time and fuel annually.

Over 200 million trips are taken daily across deficient bridges in the Nation's 102 largest metropolitan regions. In total, one in nine of the Nation's bridges are rated as structurally deficient, while the average age of the Nation's 607,380 bridges is currently 42 years. Overall, we are seeing a decline in the number of deficient bridges; however, current funding levels are still not enough to fulfill all of the repair and replacement needs.

The I-5 bridge over the Skagit River in Washington was not structurally deficient; however, the bridge was 58 years old and classified as functionally obsolete. A functionally obsolete bridge no longer meets the current engineering and design standards that are used today, with examples being narrow lanes or low load-carrying capacity. While functionally obsolete bridges might not pose the same risks as structurally deficient bridges, which require significant rehabilitation or replacement due to deterioration, they still demand consideration, maintenance, and proper postings. Therefore, even though we are seeing a slow, but steady decline in the overall number of deficient bridges, nationally we still have significant work to do. Nationally, we must focus not just the number of structurally deficient bridges, but functionally obsolete bridges as well.

Turning to our Nation's roads, 32 percent of America's major roads are in poor or mediocre condition. While the Nation has seen some improvements in pavement conditions due to a short surge of investment from the American Recovery and Reinvestment Act, these were not sustained, long-term investments. Of added concern are the vehicular restrictions for some roadways due to poor pavement, which can create longer routings for trucks in cases where detours are required. Deficient pavements are more common in urban versus rural areas, with 47 percent of urban interstate vehicle miles traveled (VMT) over deficient pavements compared to 15 percent of rural interstates. The ultimate cost of poor road conditions is significantly more over time than the cost to maintain those same roads in good condition. For

example, after 25 years the cost per lane mile for reconstruction can be more than three times the cost of preservation treatments over the same time period, which can lead to a longer overall life span for the infrastructure.

HIGHWAY AND BRIDGE INVESTMENT NEEDS

Federal, State, and local highway and bridge investments are not keeping pace with the growing costs of the aging infrastructure.

Estimates state that to maintain all of the Nation's highways at their current condition would cost \$101 billion in annual capital investment between 2008 and 2028. In order to improve the Nation's highways, investment would need to rise to \$170 billion annually, or an additional \$79 billion annually from current investments, during that same time period. This investment would bring the number of Federal-aid highway vehicle miles traveled on pavements with a good ride quality up from 46 percent in 2008 to 74 percent by 2028. Unfortunately, Federal, State, and local governments are only spending \$91 billion annually on capital investments, meaning that each year our roads deteriorate further. If present trends continue, the unfunded gap in highway funding, which is 48 percent of the total need in 2010, is expected to increase to 54 percent by 2040.

When zeroing in on just the Nation's bridges, the Federal Highway Administration (FHWA) estimates that the current cost to repair or replace only the deficient bridges eligible under the Federal Highway Bridge Program is almost \$76 billion. This total is up from 2009, when FHWA estimated that the total cost was \$71 billion. If bridge maintenance continues to be deferred over the next 25 years, these backlog costs will rise. To put these numbers in perspective, over the last 30 years Congress has provided approximately \$77 billion to the States through the Federal-aid bridge program. The Federal Highway Administration estimates that to eliminate the bridge backlog by 2028, the Nation would need to invest \$20.5 billion annually; however, at this time only \$12.8 billion is being spent annually on the Nation's bridges.

HIGHWAY TRUST FUND

With the current surface transportation authorization (MAP-21) expiring next September, Congress will soon need to begin discussions on how to fund a new multi-year surface transportation authorization and more importantly how to make the Highway Trust Fund sustainable as a long-term revenue source. Therefore, due to the Nation's growing surface transportation needs, Congress must first appropriate the funding levels that were authorized under MAP-21, while also tackling a way to provide a long-term, reliable, and sustainable approach toward fixing the Highway Trust Fund.

A key reason for the current decline in transportation spending is the fact that Federal revenues supporting the Highway Trust Fund have not been adjusted since 1993; however demands on the system have grown. As a result, current levels of highway and public transportation investment cannot be maintained solely with trust fund resources and Congress has had to rely on the General Fund to shore up resources.

Currently, the Highway Trust Fund is allocating more than the revenues it receives, with the trust fund allocating \$15 billion more in 2012 alone. The Congressional Budget Office (CBO) recently projected that to prevent a massive shortfall for highway and transit spending in 2015, Congress will need to severely cut highway spending, transfer \$14 billion to the Highway Trust Fund from the General Fund, raise the Federal gas tax by about 10 cents per gallon, or implement some combination of the three. The current solution provided by the Obama administration is to once again transfer funds from the General Fund, which is not a long-term solution for funding highway and transit programs.

ASCE RECOMMENDATIONS

While additional funding is critical to improving the Nation's highways and bridges, it is not the only solution. ASCE recommends the following solutions in order to begin bring the Nation's roads and bridges into a state of good repair:

- Ensure the sustained sufficiency and reliability of the Highway Trust Fund by identifying and incorporating necessary additional revenue streams.
- Encourage the use of asset management programs to provide for the most efficient use of maintenance and repair investment.
- Make the repair of structurally deficient urban bridges a top national priority through the implementation of a risk-based prioritization model.

- Increase annual investment levels for bridge repair, reconstruction, and renovation by approximately \$8 billion annually from all levels of government, to a total annual funding level of \$20.5 billion.
- Develop a national strategic plan for addressing the Nation's structurally deficient and functionally obsolete bridges in the upcoming decades, including long-term transportation research in order to develop more resilient bridges.
- Set a national goal to decrease the number of just structurally deficient bridges to 8 percent by 2020 and decrease the percentage of the population driving over all deficient bridges by 75 percent by 2020.

CONCLUSION

Continuing to maintain baseline levels of investment for the Nation's roads and bridges only allows us to maintain the inadequate conditions that our current surface transportation systems are under. Without developing a long-term, reliable user fee approach for the Highway Trust Fund, surface transportation programs will continue to live under a cloud of uncertainty for the years to come and necessary improvements cannot be fully addressed. A transportation system cannot run properly when it must rely on transfers from the General Fund in order to remain solvent. Congress must take the lead in addressing this problem to ensure continuity in the Nation's surface transportation program. In the short term, ASCE is pleased to see that Congress is fully appropriating the funding levels that have been authorized by MAP-21 and that Senators continue to push the need to upgrade the Nation's aging infrastructure. However, making a strong commitment to the Nation's surface transportation system without the proper funding does not solve our long term infrastructure needs.

The longer Congress waits to properly fund surface transportation programs, the greater the problem will become. Inaction will lead to a further deterioration of the Nation's surface transportation assets, a continuation of high levels of traffic fatalities and more wasted time and fuel due to increased congestion creating a further drag on the economy. Therefore, ASCE stands ready to work with Congress as it works to fund our Nation's vital transportation assets.

PREPARED STATEMENT OF THE CALIFORNIA ASSOCIATION OF HOUSING AUTHORITIES

Thank you for the opportunity to present written testimony regarding the fiscal year 2014 Department of Housing and Urban Development (HUD) budget. The California Association of Housing Authorities (CAHA) represents the 113 housing authorities in the State of California. Together, we administer approximately 320,000 section 8 housing choice vouchers for the elderly, disabled, and families with children; partner with the Veterans Administration to provide housing vouchers for 8,100 homeless veterans; and own approximately 39,100 public housing units. In addition, we provide housing and supportive services to thousands of very low income households under an array of other HUD and non-HUD programs, including the Low Income Housing Tax Credit. Our testimony pertains to the Housing Choice Voucher (HCV) Program and the Public Housing Program.

Housing Choice Voucher Program.—The fiscal year 2013 budget funded us at a 92.5 percent proration for the HCV Program. This is the lowest level in the 38-year life of the HCV Program. As a result, housing authorities are drafting procedures to terminate existing tenants from the HCV Program and HUD has estimated that 125,000 families nationwide could lose their housing assistance, some 15,700 in California. These are families who have already signed leases with their landlords—landlords who, likewise, are dependent on the HCV Program subsidy payments to make their mortgage payments. The mission of housing authorities is to house people, not terminate their assistance resulting in homelessness. We understand that increasing funding for the HCV Program to serve all potentially eligible families is not possible in these economic times. However, we ask that you provide sufficient funding in the fiscal year 2014 budget to renew assistance to all current participants so that no family loses its housing.

HCV Program Administrative Fees.—Housing authorities are paid according to a formula to administer the HCV Program. The fiscal year 2013 budget funded us at a 69 percent proration which, like the HCV rental subsidy, is the lowest in the 38-year history of the Program's operation. While some may say that 100 percent of the formula is too rich CAHA believes that no one can argue that 69 percent is sufficient.

The HCV Program Administrative Fee proration has been steadily decreasing over the last 5 years as follows: 2009—88 percent; 2010—93 percent; 2011—85 percent; 2012—80 percent and 2013—69 percent. To manage, housing authorities are

doing lay-offs, mandating furloughs, cutting salaries and benefits and reducing office hours. According to the National Association of Housing and Redevelopment Officials (NAHRO), since fiscal year 2003, the last time housing authorities received 100 percent of their Administrative Fee, 213 housing authorities have “handed back” their HCV Program to HUD or transferred it to another housing authority.

CAHA believes that it takes people to help people. Housing authority staff determine family eligibility and rent annually, maintain the waiting list, inspect every unit every year per HUD’s Housing Quality Standards, outreach to landlords, conduct criminal background checks, maintain program integrity and prevent fraud, and counsel families to find appropriate housing. These activities are labor intensive, particularly as the regulatory requirements are overly burdensome and far in excess of what would be required to administer a sound, integrity-based HCV Program. In addition to restoration of the Administrative Fee funding to a 90 percent proration, CAHA respectfully asks that you include five regulatory relief measures in your deliberations:

1. *Biennial Inspections.*—The HCV Program requires annual inspections of all subsidized units. Moving to a biennial schedule would reduce inspection work by 50 percent. Most Moving to Work (MTW) agencies have already successfully adopted initiatives that reduce unit inspections to a biennial schedule with special monitoring/sanctions for units that fail to meet standards.

2. *Biennial or Triennial Income Recertifications for Fixed Income Households.*—The HCV Program requires annual recertification of all participating households. However, approximately 50 percent of section 8 households are elderly and/or disabled and typically have fixed incomes. Most MTW agencies have already successfully adopted initiatives that permit biennial or triennial recertifications for fixed income households.

3. *Adoption of a National Waiver for Reduction of Payment Standards.*—The HCV Program requires subsidy levels, called “payment standards,” pegged to 90–110 percent of local fair market rents (FMRs). When funding is insufficient, regulations permit housing authorities to apply to HUD for a waiver to reduce the payment standard below 90 percent. Each request is handled individually by HUD and takes a remarkable amount of time and resources to process. During this section 8 funding crisis, CAHA requests that HUD process a nationwide waiver for payment standards as low as 80 percent for housing authorities with insufficient section 8 funding from HUD to meet the subsidy requirements of their outstanding vouchers.

4. *Reduced Payment Standard Waiver Implementable Immediately.*—Per HUD regulations, the waiver permitting a reduction in payment standards cited in No. 3 above may only be implemented over the course of 1–2 years. CAHA requests that the proposed nationwide waiver be implementable on an immediate basis.

5. *Treasury Offset Program.*—The Treasury Offset Program is a centralized offset program, administered by the Financial Management Service’s Debt Management Services, to collect delinquent debts owed to Federal agencies and States, typically through Internal Revenue Service (IRS) refunds offset of another U.S. Government-issued payment. Authorization for housing authorities to participate in the program would assist in the collection of debts owed by current or former HCV Program and Public Housing Program participants. Amounts recovered would become available for current program expenses. The State of California Employment Development Department (EDD) already permits this activity at the State level.

Public Housing.—The Public Housing Operating Fund is supposed to cover the difference between the rent paid by public housing residents and the housing authorities’ cost to manage the housing. The Operating Fund was structured based on a cost study of well-managed multifamily housing done by Harvard University. Despite the study, however, over the last 10 years (except for American Recovery and Reinvestment Act of 2009 (ARRA) funds provided in 2010) the Operating Fund has not been funded at 100 percent of the formula and in fiscal year 2013 was at only 82 percent.

The President’s fiscal year 2014 budget requests \$4.6 billion for the Operating Fund. According to HUD, this figure represents 90 percent of estimated eligibility under the Operating Fund formula. CAHA respectfully asks that the subcommittee appropriate operating funds at the 90 percent proration level at a minimum; full funding would be at \$5.17 billion.

The President’s fiscal year 2014 budget also requests \$2 billion for the Public Housing Capital Fund, which housing authorities use to make major capital improvements to their public housing. For fiscal year 2013, the Capital Fund received only \$1.789 billion after accounting for the impact of sequestration, the lowest level in the history of the Public Housing Program. The President’s budget anticipates that, after set-asides, approximately \$1.95 billion would be applied toward formula Capital Fund grants for fiscal year 2014. This request continues to fall far short of

the \$3.4 billion in annually accruing capital needs estimated by the 2010 Abt Associates' Capital Needs Assessment study commissioned by HUD. No funding to build additional, new public housing has been provided in years, so it is critical to preserve and sustain the public housing that exists. CAHA respectfully asks that the subcommittee appropriate \$3 billion for the Capital Fund.

CAHA understands well our Nation's budget issues and is poised to do its part. Other than full funding to protect all tenants currently receiving HCV Program assistance, all of our funding requests are for less than the formula amounts. The 5 percent cut imposed by sequestration does not necessarily sound unreasonable—but it is not just a 5 percent cut. It is 5 percent cut from the lowest amount historically appropriated for our housing programs and will have significant impacts on some of our country's poorest citizens.

Thank you for considering our requests.

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 this testimony for the record on fiscal year 2014 appropriations for surface transportation, rail, and community development programs. The CONEG Governors deeply appreciate the subcommittee's longstanding support of funding for these programs. Federal support is vital to maintaining the national transportation system, enhancing its capacity to meet enormous and diverse needs, and contributing 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.

The Governors recognize that the subcommittee, in crafting the fiscal year 2014 appropriations measure, faces a very difficult set of choices in an environment of severe fiscal constraints. Funding the Nation's surface transportation programs in fiscal year 2013 at the funding levels authorized in the Moving Ahead for Progress in the 21st Century Act (MAP-21) (Public Law 112-141) was a significant accomplishment. They thank the subcommittee for its support and urge you to continue this strong Federal/State partnership so vital for a national, integrated, multi-modal transportation system. This system underpins the competitiveness of the Nation's economy; broadens employment opportunities; and contributes to the efficient, safe, environmentally sound, and energy efficient movement of people and goods.

SURFACE TRANSPORTATION

The CONEG Governors urge the subcommittee to fund the highway obligation ceiling at the authorized levels, adequately fund safety and innovative financing programs, and maintain at least the fiscal year 2013 levels for public transit programs. These levels of Federal investment are 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 authorized levels;
- Fund public transit programs at no less than the authorized levels, with full funding for the current transit formula grants and capital investment grants, 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).

The Governors deeply appreciate the subcommittee's continued support for Amtrak and the funding in prior years for intercity passenger rail capital assistance. Recognizing that Congress will undertake a new authorization of the rail program to follow the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) (Public Law 110-432), they urge the subcommittee to provide fiscal year 2014 funding for intercity passenger rail capital assistance. Significant funding for intercity passenger rail, in addition to the Amtrak funding, 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 intercity passenger rail system; and develop a coordinated, comprehensive vision and plan 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 already 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 PRIIA. The intense efforts of the States, Amtrak and freight railroads in recent years are now showing positive 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 initiatives over the past years are part of an on-going coordinated effort to improve service by reducing travel times, increasing speed, increasing service reliability and on-time performance, and eliminating choke points; while improving infrastructure through station upgrades, replacing aging bridges and electrical systems, installing track and ties, replacing catenary wires, and purchasing new locomotives. Among the active collaborative projects that are employing thousands of workers using American-made supplies are the following:

- Maine's Northern New England Passenger Rail Authority (NNEPRA) is managing a project to add double track and replace rail in Massachusetts on the portion of the Downeaster line owned by the Massachusetts Bay Transportation Authority (MBTA). These improvements will enhance Downeaster reliability/on-time performance and set the stage for more Downeaster frequencies. NNEPRA received a Federal Railroad Administration (FRA) grant and the MBTA provided a match.
- The Delaware Department of Transportation, the University of Delaware, and the City of Newark are designing and building a regional transportation center, on former industrial property acquired by the University of Delaware, to serve Amtrak, Southeastern Pennsylvania Transportation Authority, and Delaware public transit. Preliminary engineering is anticipated for the summer of 2013.
- In Massachusetts, work currently is underway to re-route Amtrak's Vermonter will expand service to new communities, connecting Vermont, western Massachusetts and central Connecticut to the Northeast Corridor and Washington, DC. Upgrades to this "Massachusetts Knowledge Corridor" include installing 50 miles of new rail (made in Steelton, Pennsylvania) and replacing approximately 75,000 ties. This project builds upon work completed in Vermont that has reduced travel time by almost 1 half-hour.

Amtrak.—The Amtrak fiscal year 2014 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 investments urgently needed to maintain the Northeast Corridor and other Amtrak-owned or maintained infrastructure and equipment; advance the Gateway Program to expand track, tunnel and station capacity between Newark, New Jersey, and New York Penn Station; acquire new equipment; and improve accessibility for passengers with disabilities.

The Governors also strongly urge the subcommittee to provide Amtrak the requested levels of funding 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 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 2014 to fund a 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 continuation of the work being led by the FRA, working cooperatively with the Northeast States, 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 \$25 million is needed in fiscal year 2014 for the completion of these analyses which are required for any future major improvements for higher-speed intercity passenger rail service on the NEC.

Since these corridors serve diverse travel markets, the Governors 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, they request the subcommittee 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, reduced energy consumption, air quality improvements, and local and regional economic development of the entire Northeast region. It is also tasked with developing a standardized formula to determine and allocate the costs, revenues and contributions among NEC commuter railroads and Amtrak which 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 2014 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. The Governors 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.

The Governors 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 \$3.3 billion in formula funding for the Community Development Block Grant (CDBG) program. This program, which enables States to invest in improved local infrastructure, rehabilitated affordable housing, and local economic development and jobs, has a proven track record of contributing to neighborhood and community redevelopment and improvement nationwide. Every \$1 invested in CDBG leverages an additional \$3.55 in non-CDBG funding.

CONCLUSION

In conclusion, the CONEG Governors urge the subcommittee to:

- Fund the highway obligation ceiling at the authorized levels;
- Expand the TIFIA program;
- Fund Federal public transit programs at the authorized levels, with full funding for the transit formula grants and capital investment grant 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
- Provide formula funding for the Community Development Block Grant at the \$3.3 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 EASTER SEALS

Thank you for this opportunity to submit testimony on behalf of Easter Seals about two collaborative partnerships we administer with the Federal Transit Administration. We appreciate the strong support of the subcommittee over the years and look forward to continuing to work to increase the mobility of people with disabilities and older adults.

Easter Seals respectfully requests that the subcommittee include report language in the fiscal year 2014 transportation appropriations bill providing no less than \$3 million for Project ACTION and no less than \$1 million for the National Center on Senior Transportation within the Standards Setting and Technical Assistance account at the Federal Transit Administration.

ABOUT PROJECT ACTION

People with disabilities rely on public transportation to travel to work and to access services, supports and entertainment in their communities. Recognizing the need to improve access to public transportation for people with disabilities, Congress in 1988 established a national technical assistance center called Project ACTION to partner with transportation providers, the disability community and others to promote universal access to transportation for people with disabilities. Congress recently reauthorized Project ACTION through the Moving Ahead for Progress in the 21st Century Act (MAP-21). Project ACTION is funded by the U.S. Department of Transportation's Federal Transit Administration (FTA) out of the standards development and technical assistance account. Easter Seals, Inc. won the competitive bid to manage Project ACTION for FTA.

COLLABORATING WITH PUBLIC TRANSIT OPERATORS TO INCREASE ACCESSIBILITY AND IMPROVE SERVICES

Project ACTION is the preeminent resource in the country for helping increase the mobility of people with disabilities. The project does an exemplary job of gathering and sharing best practices; providing technical assistance and training; facilitating strategic partnerships and community engagement to support the develop-

ment and coordination of transportation options; developing and disseminating information, including the use of web-based and social media vehicles; and administering demonstration grants.

Project ACTION's accomplishments include:

- Creating a strong collaborative environment between the disability and transit community;
- Creating hundreds of useful guides, resources, tools and other resources on critical issues affecting mobility for people with disabilities and older adults that are available to transit providers, disabilities and the general public for free;
- Providing direct technical assistance to transit providers, people with disabilities and others through in-person, phone, online and other consultation;
- Creating and delivering direct training on critical mobility issues affecting people with disabilities, transit providers and community planners; and
- Working with communities to help them plan and implement strategies to increase mobility.

EASTER SEALS PROJECT ACTION APPROPRIATIONS PRIORITIES

Easter Seals urges Congress to support the mobility needs of people with disabilities and older adults (through the National Center on Senior Transportation) to address significant unmet needs, such as addressing the coming increase in the need for accessible transportation options as baby boomers age and integrating transportation technology advances to increase transportation mobility and access.

ABOUT THE NATIONAL CENTER ON SENIOR TRANSPORTATION

Older adults rely on public transportation to travel to work and to access services, supports and entertainment in their communities. Recognizing the need to improve access to public transportation for older adults, Congress authorized the National Center on Senior Transportation (NCST) in 2005 as part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Congress reauthorized the program in 2012 as part of the Moving Ahead for Progress in the 21st Century Act (MAP-21) in the standards development and technical assistance account.

With funding from the U.S. Department of Transportation, Federal Transit Administration, NCST was launched in 2006 and has been administered by Easter Seals, Inc. in partnership with the National Association of Area Agencies on Aging (n4a) ever since. In April 2012, the Federal Transit Administration once again selected Easter Seals, Inc. and n4a to administer. From the Center's inception, a national steering committee of experts in senior transportation issues has advised NCST on issues in aging and transportation and ways to achieve NCST's goals.

COLLABORATING WITH COMMUNITIES TO INCREASE INDEPENDENCE AND IMPROVE SERVICES

The National Center on Senior Transportation's mission is to increase transportation options for older adults and enhance their ability to live more independently within their communities throughout the United States. NCST achieves this mission by gathering and sharing best practices; providing technical assistance and training; facilitating strategic partnerships and community engagement to support the development and coordination of senior transportation options; developing and disseminating information; and administering demonstration grants.

The Center has a strong commitment to promoting innovations at the community level and has provided funding and technical assistance to support a number of specific projects across the United States. Working with individual communities, the NCST identifies effective and creative approaches for addressing the challenges that impact transportation services for older Americans. The NCST strives to bring together the aging, human service, and transportation providers to create solutions. Our work supports the full "family" of older adult transportation services, including programs using volunteers both to driver and to accompany older adults to their destinations, travel training and orientation promoting increased use of public transit, older driver safety, education for caregivers, coordinated planning efforts and much more.

NATIONAL CENTER ON SENIOR TRANSPORTATION APPROPRIATIONS PRIORITIES

Easter Seals urges Congress to support the mobility needs of older adults and people with disabilities (through Easter Seals Project ACTION) to address significant unmet needs, such as addressing the coming increase in need for accessible trans-

portation options as baby boomers age and integrating transportation technology advances to increase transportation mobility and access.

PREPARED STATEMENT OF HABITAT FOR HUMANITY INTERNATIONAL

Thank you for the opportunity to provide testimony in support of the Self-Help and Assisted Homeownership Opportunity Program (SHAHOPE) account, which funds the Self-Help Homeownership Opportunity Program (SHOP), the Section 4 Capacity Building for Community Development and Affordable Housing Program (Section 4), and the Department of Housing and Urban Development's (HUD's) rural capacity building program. Habitat for Humanity International (Habitat) urges the subcommittee to appropriate \$60 million for the SHAHOPE account for fiscal year 2014, funding SHOP at \$20 million, Section 4 at \$35 million, and rural capacity building at \$5 million.

SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAM

HUD's SHOP program has been a uniquely effective tool for enabling successful low-income homeownership by providing resources to Habitat affiliates and other nonprofits implementing self-help housing models to acquire property, including foreclosed or abandoned homes, and to develop infrastructure for future Habitat homes, activities that are among the most difficult to underwrite through private fundraising. With many communities around the country still struggling to overcome the effects of the Great Recession and the foreclosure crisis, enabling families to become successful homeowners has never been more important to local economies. With the support of SHOP funds, Habitat affiliates have completed more than 15,000 homes and housed nearly 54,000 people and counting, while leveraging over \$1 billion in private investment in neighborhoods and communities throughout the Nation.

Since fiscal year 2011, SHOP funding has been cut by 50 percent to the current funding level of \$13.5 million, drastically reducing the impact of one of the most effective Federal tools for enabling low-income families to become homeowners. In spite of the program's proven effectiveness, the administration's fiscal year 2014 budget request proposes eliminating SHOP as a stand-alone program, guaranteeing \$0 in future funding through a so-called HOME Investment Partnerships Program (HOME) "set-aside" of "up to" \$10 million.

Even if funding were ultimately provided through a HOME set-aside, it is unlikely that Habitat affiliates could access or administer such a program, as Habitat for Humanity International (HFHI) currently applies for and administers SHOP funding and supports critical monitoring and evaluation requirements on behalf of its affiliates. HFHI would be unable to continue serving in this role if it were required to apply separately to every participating jurisdiction for funding, and the vast majority of Habitat affiliates would be unable to add the necessary staff capacity to do so on their own behalf.

Additionally, current administrative processes would become even more burdensome under the administration's legislative proposal, which would expand HUD's regulation of SHOP. This is in stark opposition to the clearly expressed statutory intent of Congress to constrain SHOP regulatory burdens, maximizing the local impact of the program. In light of the Office of Management and Budget's (OMB's) having rated SHOP as of the most effective programs at HUD, it makes little sense to reform or reauthorize it as a HOME set-aside. Under the program's current structure, SHOP grantees have completed more homes at a lower cost than HUD requires and have generated levels of private investment in local communities rarely achieved through HUD programs.

In addition to maximizing the impact of scarce appropriations, SHOP's traditional structure also ensures quality by enabling grantees to select the best local nonprofit developers to implement funding. Ultimately the President's proposal would eviscerate SHOP, shifting limited funding from serving families to meeting regulations and undermining Habitat and other proven grantees' ability to ensure program quality. In light of current budgetary constraints, ongoing weakness in the housing market, and SHOP's long history of effectiveness and efficiency, Habitat urges the subcommittee to maintain SHOP's current structure and to restore funding to \$20 million for fiscal year 2014.

SECTION 4 CAPACITY BUILDING PROGRAM

Complementing SHOP is the Section 4 Capacity Building Program (Section 4), the sole HUD program designed specifically to enhance the capacity of local nonprofit

community developers. Like SHOP, Section 4 has endured significant cuts since fiscal year 2011, and the President's fiscal year 2014 budget request proposes reducing the funding level to \$20 million, an additional 43 percent cut from the current level of \$35 million. Such a reduction would inevitably result in the diminished ability of community development organizations to meet the critical needs of local communities still struggling to achieve economic recovery.

Habitat uses Section 4 funding to provide training, technical assistance, and organizational development grants to local Habitat affiliates to assist them with building staff capacity and expertise, organizational skills, and technical systems required to maximize impact on local communities. Affiliates receiving Section 4 funds have increased their housing production levels by 48 percent during their 3 year grant periods and have sustained or increased these gains in subsequent years. Habitat urges the subcommittee to maintain Section 4 at \$35 million for fiscal year 2014.

Together, SHOP and Section 4 serve as impact multipliers for Habitat affiliates nationwide in both rural and urban communities. With local economies still suffering effects from the Great Recession, Congress should maintain proven programs like SHOP and Section 4 that leverage tens of millions of dollars of private investment into communities, enabling hundreds of additional qualified families to become Habitat homeowners each year.

Please support Habitat's mission and work by funding SHAHOP at \$60 million in the fiscal year 2014 Transportation, Housing and Urban Development, and Related Agencies appropriations bill. Thank you for your consideration and for your support of Habitat for Humanity.

PREPARED STATEMENT OF HUD COUNCIL 222, AMERICAN FEDERATION OF
GOVERNMENT EMPLOYEES, AFL-CIO

Madam Chairman Murray, Ranking Member Collins, and members of the subcommittee, my name is Carolyn Federoff. I am the executive vice president of HUD Council 222, American Federation of Government Employees, AFL-CIO. On behalf of the 1,547 Federal employees who work in the Office of Multifamily Housing (MFH) of the U.S. Department of Housing and Urban Development, I want to thank you for the opportunity to submit our written statement for the hearing record on the important issue of the HUD proposal to reorganize the HUD Office of Multifamily Housing.

SUMMARY

HUD's proposed reorganization of the Office of Multifamily Housing is irresponsible. It would be very costly to implement, would generate little or no savings, would not resolve the problems identified by HUD in its Federal Register notice (78 FR 25293), and would generate additional problems—many of which could increase risk to the Federal Housing Administration (FHA) Insurance Fund.

The Office of Multifamily Housing employees have been remarkably successful. Between 2009 and 2012, Multifamily Housing increased its customer base from 48 lenders to 89 lenders, more than doubled the value of initial endorsements—from \$5.1 billion to \$13.1 billion, and nearly doubled the numbers of loans processed, from 661 to 1,286. The Office of Multifamily Housing can be made more effective and efficient. But we believe alternative, more responsible, proposals are faster, cheaper, and smarter.

DISCUSSION

Proposed Multifamily Housing Reorganization Would Be Very Costly To Implement

HUD is proposing to physically consolidate into 10 locations; employees and work currently located in 61 offices nationwide. The Agency projects a minimum cost of \$57.3 million based on various one-time costs, including:

- Buyout cost—approximately \$13.9 million—\$20.8 million;
- Personnel relocation cost—approximately \$16.8 million—\$33.6 million;
- Net office closure costs—\$6.1 million;
- Space alteration costs in the 10 remaining offices—\$20 million; and
- Training costs—\$500,000.

However, the Agency has failed to present other costs, including:

- Minimum loss of 25 percent of skilled and experienced employees;
- Unknown costs for recruiting and rehiring employees with necessary skills to replace employees choosing not to relocate;
- Unknown costs for training new employees;

- Unassessed cost of severance pay for employees choosing not to relocate or take a buyout;
- Unknown cost to national and local economies due to lost productivity during relocation chaos;
- Unknown cost to FHA insurance funds due to increased risk resulting from relocation chaos; and
- Unknown long-term cost to FHA insurance funds due to reduced staffing and oversight.

In addition, the Agency has presented no reoccurring costs. This is not supportable, however. Unless the Agency intends to eliminate all site visits or use contractors, the cost of travel will increase as Multifamily Housing field staff will be required to travel further distances. Further, there will be increased annual office costs in the 10 remaining offices. Moreover, the per square foot cost for office space in the 10 remaining offices will be generally more expensive than the cost of current office space.

Proposed Multifamily Housing Reorganization Would Generate Little to No Savings

HUD projects long term savings of approximately \$47 million annually: “The savings is directly related to a reduction in salary and benefit costs due to reducing overall MFH staffing from 1,547 in fiscal year 2012 to 1,173 by the end of fiscal year 2016.” These savings were calculated based upon an average cost per full-time employee (FTE), or approximately \$125,000 per FTE.

However, not all FTEs are the same. The cost of an FTE in New York City is more than the cost of an FTE in Des Moines, Iowa. Through collective bargaining, the Agency has provided us with a “from-to” list identifying the current duty stations of bargaining unit employees and the offices to which they will be reassigned. There are 617 employees on this list. (The remaining approximately 173 employees to be reassigned are not in the AFGE Council 222 bargaining unit.) The employees are predominantly GS-12 and GS-13. For ease of calculation, we conservatively assumed that all affected employees are GS-12 Step 5. We then calculated the cost of their salaries in their current location versus in the location to which they will be reassigned. The result is an increase in salary costs of more than \$2.1 million annually.

Recognizing that the Agency intends to reduce costs by reducing FTEs, we recalculated. The Agency intends to relocate or buyout 790 employees, with a net loss of 374 FTEs. Our calculations are based on 617 FTEs, therefore accommodating 191 of the projected loss. The remaining 185 of the projected loss represents an additional 30 percent reduction in staff. Reducing our salary estimates by 30 percent results in a final estimate of almost \$1.5 million in additional salary costs annually.

We will be spending more to get less.

Proposed Multifamily Housing Reorganization Would Not Resolve the Problems Identified by HUD but Alternative, More Responsible, Methods Would and They Would Be Faster, Cheaper and Smarter

“Fragmented and Unwieldy Organizational Structure”/Need for “Better Spans of Control”

Many of the problems identified by HUD as the reasons for the reorganization are real. But the proposed consolidation into 10 offices does not resolve the problems identified. For example, the Federal Register Notice presents as a problem a “fragmented and unwieldy organizational structure” and states that Multifamily Housing needs “better spans of control and [to] establish clear reporting lines in the field.” An organizational structure, however, is not the same as an office structure. Organization charts are not written in bricks and mortar. Similarly, spans of control and lines of authority are not resolved by the configuration of office space. Physically consolidating staff will not instantly eliminate fragmentation or an unwieldy organizational structure. Physically consolidating Multifamily Housing employees will not eliminate multiple layers of review or bottlenecks through which all decisions must flow.

A cheaper, faster and smarter solution is to change the organizational reporting relationships and lines of authority. This can help resolve fragmentation and create a more “wieldy” or controllable organizational structure. It can be used to create better spans of control. If articulated well, it can establish clear reporting lines in the field and headquarters.

We recommend that the Agency use HUD’s established regional structure to consolidate hubs and tame unwieldy spans of control, assuring access to HUD’s core programs (Multifamily Housing, public housing, community planning and development (CPD), and fair housing and equal opportunity (FHEO)) in offices across the country. To maintain customer service at reasonable cost, we recommend that re-

maining field offices be established as satellites. If workload does not support the designation of a field office as a satellite, existing Multifamily Housing employees can be “out stationed” from and report remotely to the hub.

“Antiquated Systems and Processes”/Need To “Increase the Consistency of MFH Processing Across the Country”

The Agency has identified as problems “antiquated systems and processes” and the need to “increase the consistency of MFH processing across the country.” Again, however, these are not problems that are necessarily resolved through relocation. Antiquated systems and processes are location neutral. “Reducing the field footprint” does not automatically result in more consistent customer service. It takes better systems and processes, and trained employees and managers to achieve consistent customer service.

Cheaper, faster and smarter solutions are available. The Breaking Ground and Sustaining Our Investments initiatives directly address the processes our Development and Asset Management divisions use daily. The cost of their initial implementation has already been expended. In 2009 and 2010, the Administration introduced Loan Committees that review applications for FHA mortgage insurance before the issuance of a firm commitment. This has increased the consistency of Multifamily Housing development processing.

Need for “More Active Workload Balancing”

The Agency has identified a need for “more active workload balancing.” FHA Commissioner Carol Galante testified before this subcommittee about wide disparities in the workload of employees from office to office. As union representatives, we are acutely aware of these inequities. We are also aware, however, that the Agency lacks a willingness to actively manage the workload. Physically consolidating Multifamily Housing employees in and of itself does not actively balance workloads. This takes active management.

A cheaper, faster and smarter solution is available. The administration has recently started a workload sharing pilot program that is location neutral. If, as contemplated by this reorganization, work from Seattle, Washington, can be done in San Francisco, then the work from an overburdened asset manager in Portland, Oregon, can be done by an employee with a lighter portfolio in another office. The workload sharing pilot should be fully implemented.

Proposed Multifamily Housing Reorganization Would Generate Additional Problems, Many of Which Could Increase Risk to the FHA Insurance Fund

Aside from failing to solve the problems identified, the proposed reorganization would create additional problems. Some of the problems created will be irreversible. Many will increase risk to the FHA Insurance Fund.

For example, the Agency anticipates losing 395–592 Multifamily Housing employees in the field, currently estimated at 1,247. This would be a loss of 32 percent to 47 percent of Multifamily Housing employees engaged in direct customer service. The overwhelming majority of these losses will likely be employees with 20 or more years of experience and training. The Agency is unlikely to be able to replace lost skills in a timely fashion, except at great cost: in almost every instance, the location of the proposed hub or satellite is an area with below-average unemployment rates and financial centers competing for the same talent pool.

We are particularly concerned that the proposed reorganization would permanently reduce by 30 percent Multifamily Housing employees in the field, despite the fact that reductions in staff are made before any process improvements are implemented or assessed for efficiency or effectiveness, and Government Accountability Office (GAO) reported in March that HUD lacks a credible method of determining its staffing needs. (“HUD—Strategic Human Capital and Workforce Planning Should be an Ongoing Priority,” GAO March 2013)

Request for Government Accountability Office (GAO) Report

We request that the Transportation, Housing and Urban Development, and Related Agencies appropriations subcommittee seek a GAO review of the process utilized by the Office of Multifamily Housing for determining its staffing needs after reorganization, and report on whether and how Multifamily Housing overcame the problems identified in the March 2013 GAO report.

We further suggest that the subcommittee prohibit any expenditure of funds to implement the proposed reorganization until after Congress has an opportunity to review the new GAO report.

This concludes my written statement. I thank you for including it in the hearing record.

PREPARED STATEMENT OF THE INSTITUTE OF MAKERS OF EXPLOSIVES
FISCAL YEAR 2014 FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION BUDGET REQUEST
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, 1.3, and 1.5 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 to maintaining their HMSP qualification.

IMPLEMENTATION ISSUES

HMSP holders 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, all carriers must perform to the OOS standard, irrespective of their safety rating.

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 8 years, the HMSP program has been plagued by administrative missteps including double counting OOS inspections and thousands of erroneous denials of applications. Last year, FMCSA provided “interim” relief by “fixing” the OOS disqualification rates. Prior to the “fix,” disqualification rates were recalculated every 2 years, thereby exposing carriers to the risk of losing their permits simply because they were being judged against a different universe of carriers at a particular point in time. Still, 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. Selection criteria for roadside inspections is not random (nor should it be given limited resources), which is to say that carriers do not have equal opportunity to amass “clean” inspections. Not all OOS violations are crash-causal, and some are inherently biased by personal judgment. Further, the methodology used to determine “significance” of the inspection data lacks statistical confidence. We do not object to a public policy requiring that motor carriers transporting hazmats be held to higher safety standards. However, we do object to the bias and uncertainty that the current HMSP 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 data generated after the 8 years of the HMSP and during the 8 years imme-

¹ 68 Federal Register (FR) 49737, 49752 and 49753 (August 19, 2003); 69 FR 39367, 39352 (June 30, 2004).

diately preceding the implementation of the HMSP shows that HMSP holders are historically among the safest carriers on the road and that the program has had little impact on safety:

HMSP material	1997–2004		2005–2012		All hazmat highway incidents			
	Crashes	Fatalities	Crashes	Fatalities	1998–2004		2005–2011	
					Crashes	Fatalities	Crashes	Fatalities
Explosives (25 kg, 1.1, 1.2, 1.3, and placarded 1.5)	36	.....	29	.....	.....	.....	.....	.....
RAM (HRCQ) ¹	16	.....	19	.....	.....	.....	.....	.....
THH	55	.....	61	21	.....	.....	.....	.....
Methane	4	.....	3	.....	.....	.....	.....	.....
Total	111	.....	112	1	2,461	85	2,448	81

Data from the Hazardous Materials Information System (HMIS), 3/11/2013.

¹ It may be that none of these crashes are highway route controlled quantities (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 Anhydrous ammonia (AA) intended for agricultural use.

For HMSP holders, this safety 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 an HMSP holder to average 15 or fewer inspections in a year, but only inspection data from the 12 months prior to the expiration of the holder’s permit is counted, and only holders with at least three inspections are considered “statistically significant” for purposes of the OOS disqualifications. If two of the inspections in this timeframe result in an OOS², the carrier would need 28 “clean” inspections to requalify. The later into the 12-month qualification period that the second OOS occurs, the more unlikely it is that a carrier could recover. Consider that two similarly situated carriers each receive two OOS inspections, then one of the two obtains a third “clean” inspection. The carrier that received the clean inspection would lose its permit, the other would continue operating. Or consider that on any given day two similarly situated carriers could be “underwater”³ because of their current mix of OOS and clean inspections. However, because one carrier’s HMSP expires that day, that carrier loses its permit, while the other continues to operate.

These specialized 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 carriers are 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. Under no circumstance may holders apply for a waiver of the OOS disqualification irrespective of their overall operational safety records.

REQUEST FOR EXPEDITED RELIEF

FMCSA accepted a petition for rulemaking from IME and other affected industry associations 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 We would like to strongly suggest that the HMSP reform should take precedence over finalization of the SFD rulemaking, a rulemaking that has yet to be proposed. 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. For these reasons, we believe FMCSA should immediately act to fix the HMSP disqualification standards and export that refined SDF model to the larger commercial trucking universe under CSA.

The agency’s reluctance to immediately address the shortcomings of the HMSP is particularly troubling because implicit in FMCSA’s plan to address by rulemaking many of the issues raised by industry is an acknowledgment of deficiencies with the current program. These deficiencies will persist over the intervening years between now and the time that they are resolved through the promised HMSP rulemaking. Meanwhile, the controversy over the evolving SFD standards adds to the uncertainty and almost certainly means that it will be years until this “precursor” rule is finalized. The continuing adverse impacts to the HMSP community are undeserved.

While Congress tried to spur agency action by requiring that the agency consult with stakeholders and initiate rulemaking,⁵ we are concerned that the agency will not 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. Safety

²This assumes that the OOS citation was correctly 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.

³Below the OOS disqualification threshold.

⁴Letter to IME from FMCSA, November 14, 2011, page 1. (Emphasis added.)

⁵“MAP–21” (Public Law 112–141), section 33014.

is not enhanced when new and inexperienced carriers with no OOS history fill the void. 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 (ALFR) 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 ALFR 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.⁶ An ALFR would not overly burden the agency, as it would involve an examination of less than 100 HMSP holders annually. Further, this approach is consistent with the direction the agency is pursuing under the CSA initiative to focus compliance oversight on carriers needing the most improvement compared to their peers.

FMCSA told us in January that the agency was not willing to pursue a regulatory option as we have described because of resource limitations. Justice will not be served by inattention to these pressing concerns. The uncertainty of when FMCSA will be able to carry out the HMSP rulemaking coupled with the urgency for 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

Congress envisioned a risk-based safety program for hazmat carriers. It gave FMCSA wide latitude to name the types and quantities of hazardous materials that should be covered by a HMSP. But, the agency has chosen to apply this authority only to the narrow list of statutorily mandated materials. History shows that carriers of these materials are not presenting the crash risk that the agency claims the HMSP will address. Neither IME nor its members object to public policy that holds hazmat carriers to a higher safety standard, which is the premise for the HMSP. We do object, however, to the current standards for disqualification. They are not risk-based and deny holders meaningful due process protection. 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 INSTITUTE OF MAKERS OF EXPLOSIVES

FISCAL YEAR 2014 PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION BUDGET REQUEST FOR THE OFFICE OF HAZARDOUS MATERIALS SAFETY

INTEREST OF THE INSTITUTE OF MAKERS OF EXPLOSIVES

The IME is the safety and security association of the commercial explosives industry. Commercial explosives underpin the economy. They are essential to energy production, construction, demolition, and the manufacture of any metal/mineral product. Explosives are transported and used in every State. 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 and to receive precursor chemicals 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. These materials contribute to America's quality of life, but if handled improperly, adverse 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 these risks through 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 hazmat transportation so closely that such materials may not be moved any distance, via any mode of transportation unless a DOT regulation,

⁶This opportunity should not be available to applicants or holders that present an imminent hazard or evidence of a pattern willful and knowing non-compliance with safety regulations.

¹49 U.S.C. Chapter 51.

permit or approval authorizes the movement. Such close regulation makes efficient consideration of such authorizations critical to the industries and workers involved, as well as to the national defense, the security of our homeland, and the economy at large.

BUDGET UNCERTAINTY

In the absence of the Administration's fiscal year 2014 budget request, we are in uncharted territory in terms of our analysis of the President's budgetary priorities.² As of the date of this comment, Congress has provided a fiscal year 2013 appropriation to PHMSA equal to its fiscal year 2012 rate for operations, less the 0.612 percent increase provided by Public Law 112–175. Under this scenario, PHMSA is looking at \$42.3 million for its hazmat program in fiscal year 2013. This funding rate is consistent with the amount authorized for fiscal year 2013 by MAP–21.³ As we look forward to fiscal year 2014, MAP–21 provides a \$42.8 million authorization for PHMSA's hazmat programs. However, the Government's budget situation does not improve. The agency's fiscal year 2013 appropriations is still subject to a 5-percent decrease under a sequestration order if the President fails to reach agreement with Congress on an alternative, and we understand that the cap on non-emergency appropriations for fiscal year 2014 will drop to \$966 billion, down from the cap of \$984 billion in fiscal year 2013.

While there is uncertainty about the specifics of the administration's hazmat priorities for fiscal year 2014, it should be a given that additional program growth is unlikely in the near future, and certainly for the coming fiscal year.⁴ Rather, we should be focusing the realignment of program priorities to ensure that the agency's core mission is sustained. With this perspective, we offer the following comments.

PHMSA'S FISCAL YEAR 2013 "USER FEE" BUDGET REQUEST

In these tight budgetary times, PHMSA may be tempted to repropose a "user fee" on certain agency activities as it did last fiscal year. We commend both the authorizing and appropriating committees of Congress for rejecting this request last year, and urge similar restraint, if user fees are again proposed.

PHMSA'S HAZMAT PROGRAM IS A SUCCESS: RULEMAKING AND DATA COLLECTION PRIORITIES

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) attributed to the hazardous materials. The agency acknowledges that these numbers "have declined an average of 4 percent every 3 years over the long term."⁵ This decline continued last year. Only 10 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.

This safety outcome suggests that PHMSA needs to focus on two core missions: rulemaking, including the timely issuance of approvals and permits, to keep commerce moving, and data collection and public access to the data. For example, we were very concerned that no new resources above baseline were requested last year to support rulemaking activity. MAP–21 makes clear that rulemaking, including accelerating the incorporation of special permits into the HMR, is a priority. PHMSA needs to maintain resources to remain active in international standard-setting forums to ensure that U.S. rules are consistent to keep American goods moving in the global marketplace. PHMSA's ability to collect incident data is critical to stakeholder's ability to understand and learn from incidents. Additionally, the agency's efforts to enhance the online availability of incident data, rulemakings, and the timeliness of processing applications for special permits and approvals should be commended and encouraged. Finally, we welcome the agency's efforts to improve communication and outreach with the regulated community.

²The Budget Act requires that submission of the President's budget request by the first Monday in February. The current expectation is that the President's fiscal year 2014 request will be released in April.

³Public Law 112–141.

⁴PHMSA's hazmat budget has increased by about \$10 million, a 30-percent rate of growth, in the last 3 fiscal years.

⁵Fiscal year 2013 PHMSA Budget Justification, page 3.

BUDGETARY ISSUES TO CONSIDER

Staffing and Workload.—The biggest expense in PHMSA's budget is manpower. The agency's output is the work product of its employees. Yet, PHMSA's budget requests have not provided baseline empirical workload metrics to judge agency performance or the merit of staffing requests. When information about program output is provided, it is prospective, not retrospective. Of additional concern, retirements and departures of seasoned staff have led to a loss of institutional knowledge. While there is a need for qualified chemists, engineers, and economists to fill this void, it appears that the agency is using scarce resources to build a "senior advisor" cadre for agency administrators.⁶ According to the Office of Personnel Management's 2012 Federal Employee Viewpoint Survey Results Hazmat, PHMSA ranked near the bottom of all government agencies, and the lowest of all DOT's safety administrations. Such results do not bode well for attracting and retaining the kind of expert staff that are needed to keep up with the agency's rulemaking and analytical needs.

Research and Development.—Congress provides 3-year monies to support a hazmat research and development (R&D) function within PHMSA, with a mission to study and evaluate emerging hazardous materials safety issues and technologies. So far, no fiscal year 2011, 2012, or 2013 funds have been obligated. It does appear that PHMSA may be using some of these funds to create a Risk Management Framework (RMF).⁷ The RMF is supposed to establish incident probabilities through a set of fault and event trees of various hazmat shipping scenarios. The need to use scarce funds for such a framework is questionable given that four times as many deaths in the United States are caused by lightning strikes than hazmat incidents. There is concern that the RMF may lead to unnecessary over-regulation of hazmat that would threaten U.S. jobs while attaining no measurable safety benefit. At the same time, there is a pressing need to develop uniform performance standards for training hazardous materials inspectors. Congress agrees and directed PHMSA to produce these standards by April 2014. This initiative is deserving of support.

Grants Programs (GP).—PHMSA operates three GPs—HMEP, HMIT, and SPST—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.⁸ 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.⁹ This year, PHMSA proposed that Congress eliminate this report saying that staff time used to prepare this report outweighs its benefit.¹⁰ The lack of GP transparency and accountability prompted an audit by the Office of Inspector General last year. The audit found systemic mismanagement and misuse of grant funds.¹¹ PHMSA has still not made its fiscal year 2012 grant awards to applicants under the HMIT and SPST programs. We believe the funds for the SPST program are forfeit because this program is not protected by the HMTA provision that funds remain available "without further appropriation."¹² Whether or not PHMSA can release these fiscal year 2012 funds, grantees now have 6 months or less, rather than a year, to spend the funds, which does not bode well for effective use of these monies. These programs warrant increased oversight by the subcommittee.

⁶ <https://www.usajobs.gov/GetJob/ViewDetails/339410400> and <https://www.usajobs.gov/GetJob/ViewDetails/339410600> (March 15, 2013). These positions are in addition to other front office staffing added during the agency's 2010 reorganization. Approximately 25 percent of staff are now senior level grades (GS-14, GS-15, and SES); yet, few are for professional series positions. Despite the new positions, hazmat safety has not seen statistically significant improvement.

⁷ In fiscal year 2010, \$447,000 was awarded to BayFirst, LLC for this purpose, about 30 percent of the year's R&D budget, and there is a placeholder for BayFirst to receive additional fiscal year 2011 funds.

⁸ 49 U.S.C. 5116(k).

⁹ http://phmsa.dot.gov/staticfiles/PHMSA/DownloadableFiles/Files/Report_to_Congress_HMEP_Grants_Program_2005_2006.pdf

¹⁰ The Government Performance and Results Act (GPRA) Modernization Act of 2010 invites Federal agencies to identify for elimination or consolidation. http://www.performance.gov/sites/default/files/tmp/List_of_Reports_Required_by_P_L%20_111-352.xls.

¹¹ OIG, DOT, AV-2012-040, January 12, 2012.

¹² 49 U.S.C. 5116(i).

CONCLUSION

The subcommittee needs to make difficult decisions about where to save scarce Federal resources. We recommend that the subcommittee review new front office staff allocations, and ensure that the agency has a plan to replace lost expertise in its rank and file. Additional oversight of PHMSA's hazmat R&D and grants programs also is warranted. PHMSA should redirect resources to enhance its information technology and rulemaking capacities. These services are needed by the hazmat community, given PHMSA's close regulatory scheme, to enable the safe, secure, and efficient movement of hazardous materials critical to the economy.

LETTER FROM INTERESTED PARTIES FOR HAZARDOUS MATERIALS TRANSPORTATION

APRIL 26, 2013.

Hon. PATTY MURRAY,
*Chairman, Subcommittee on Transportation, Housing and Urban Development, and
 Related Agencies,*
Washington, DC.

Hon. SUSAN COLLINS,
*Ranking Member, Subcommittee on Transportation, Housing and Urban Develop-
 ment, and Related Agencies,*
Washington, DC.

RE: Fiscal Year 2014 PHMSA Budget Request

Dear Chairman Murray and Ranking Member Collins: The undersigned industry associations represent all sectors of the economy engaged in the transportation of hazardous materials which are essential to Americans' quality of life. We are writing to alert you to our concerns with the administration's proposed \$12 million user fees to be paid by applicants for special permits and approvals (SP/A) issued by the Pipeline and Hazardous Materials Safety Administration (PHMSA). This fee proposal, with charges ranging from \$700 to \$3,000 per application, is identical to the user fee the administration proposed in fiscal year 2013. Congress wisely rejected this proposal last year, and we urge you to once again reject this initiative in order to protect American jobs and promote innovation.

PHMSA states that it needs the user fees to support its oversight of the new conditions it has imposed on SP/A applicants. However, the user fee proposal is without merit:

- Currently, about 35 full-time equivalents (FTEs) are dedicated to the SP/A program. \$12 million would support a staff of 66 FTEs. PHMSA has inflated the costs of this program by about 50 percent.
- The SP/A workload is decreasing. For example, applicants for classification approvals are no longer scrutinized for "fitness" and special permits in effect over 10 years are being incorporated into the Hazardous Materials Regulations (HMR).
- The excess 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.¹
- The 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.
- Part of the revenue will have to be used to hire additional Federal workers to administer and collect the fees.
- 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.
- Despite statements that PHMSA is accelerating incorporation of special permits into the HMR, no new resources are requested to support this rulemaking activity.

¹ 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.

—The fees would be payable per application, meaning that any application returned for corrections and re-filing would result in unfair redundant fee payments.

—Other Department of Transportation (DOT) modal administrations issue approvals or what amount to special permits; none assess fees.

This program, which provides safety benefits to the public and facilitates technical innovations important to our economy, 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 interpretation or petitions for rulemaking necessary for compliance and good government.

PHMSA'S user fees are not fair or equitable but are a hidden tax on companies that innovate and produce goods needed to strengthen and rebuild the U.S. economy. Congress should again reject this initiative.

Respectfully,

Agricultural Retailers Association
American Chemistry Council
American Coatings Association
American Petroleum Institute
American Pyrotechnics Association
American Trucking Associations
Association of Hazmat Shippers, Inc.
The Chlorine Institute, Inc.
Compressed Gas Association
Council on Safe Transportation of
Hazardous Articles
Dangerous Goods Advisory Council
The Fertilizer Institute
Gases and Welding Distributors
Association
Industrial Packaging Alliance of North
America
Institute of Makers of Explosives
International Vessel Operators
Dangerous Goods Association, Inc.
National Association of Chemical
Distributors
National Association of Shell Marketers

The National Industrial Transportation
League
National Private Truck Council
National Propane Gas Association
National Tank Truck Carriers, Inc.
New England Fuel Institute
Petroleum Marketers Association of
America
Radiopharmaceutical Shippers &
Carriers Conference
Railway Supply Institute, Inc.
PRBA—The Rechargeable Battery
Association
Reusable Industrial Packaging
Association
Sporting Arms & Ammunition
Manufacturers' Institute
Steel Shipping Container Institute
Transportation Intermediaries
Association
Truckload Carriers Association
Utility Solid Waste Activities Group

PREPARED STATEMENT OF THE NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

Thank you, Chairman Murray and Ranking Member Collins for the opportunity to submit this testimony on behalf of the National Affordable Housing Management Association (NAHMA). My testimony will focus on the importance of providing full funding for the 12-month contract terms under project-based section 8 and other key Department of Housing and Urban Development (HUD) rental assistance programs.

ABOUT NAHMA

NAHMA members manage and provide quality affordable housing to more than 2 million Americans with very low to moderate incomes. Presidents and executives of property management companies, owners of affordable rental housing, public agencies and national organizations involved in affordable housing, and providers of supplies and services to the affordable housing industry make up the membership of NAHMA. In addition, NAHMA serves as the national voice in Washington for 19 regional, State, and local affordable housing management associations (AHMAs) nationwide.

PROJECT-BASED SECTION 8

In the project-based section 8 program (PBS8), HUD contracts with private apartment owners to pay the difference between the rent for the unit and 30 percent of a qualified tenant's income. The rental subsidy in the PBS8 program is tied to the property.

This program provides housing to 1.2 million low-income households, over half of which are elderly or disabled. According to HUD, the program supports 100,000 jobs, and PBS8 properties generate \$460 million in tax receipts to local and State governments.

It is essential for Congress to provide HUD with the necessary appropriations to make full and timely contract payments to property owners. When HUD does not have sufficient appropriations to obligate funding for the entire 12-month contract terms at the time of the renewals, it “short-funds” the contracts. Prior to 2009, HUD “short-funded” its PBS8 contracts with owners so that payments would only be promised from the date of renewal through September 30 (the end of the Federal fiscal year). In other words, on a 12-month contract with a January 1 renewal date, HUD would only obligate funding through September 30. Funding for the remaining 3 months on the contract would have to be re-processed in the new fiscal year. This practice was disruptive to properties’ operations, wasted HUD’s staff time, and undermined public confidence in the project-based section 8 program. Unfortunately, HUD will resume this practice, at least temporarily, to manage the cuts required under sequestration.

The President’s budget proposal for fiscal year 2014 requests approximately \$10.3 billion for the project-based section 8 program. Unfortunately, the fiscal year 2014 request is impacted by the \$1.2 billion shortfall in the program due to sequester funding levels in the fiscal year 2013 continuing resolution. As a result, HUD will not be able to fund contracts for the full 12-month terms during the remainder of fiscal year 2013 and into fiscal year 2014. If sequestration were repealed, the budget request would be sufficient to fully fund contract renewals; however, a repeal of sequestration seems increasingly unlikely. Therefore, an estimated \$11.5 billion will be necessary to fully fund the fiscal year 2014 contract renewals and to close the shortfall caused in the fiscal year 2013 appropriations.

In fiscal year 2014, NAHMA strongly urges the subcommittee to provide \$11.5 billion for full funding of the 12-month contract terms of project-based section 8 contracts. This level of funding is necessary because:

- The Federal Government must honor its contracts with property owners.
- Short-funding jeopardizes the efficient management, financial solvency, and physical health of PBS8 properties.
- Federal Housing Administration (FHA)-insured properties could default without the contract funds to pay their mortgages.
- Properties accumulate numerous late fees to lenders and service providers as a result of having insufficient funds to make mortgage and utility bill payments.
- Property staff suffer lay-offs as a result of insufficient contract funding.
- Rehabilitation and renovation plans are put on hold when funding is erratic.
- Short-funding is a budget gimmick that does not save the Government money.
- Appropriations for 11,000 contracts that will be underfunded in fiscal year 2013 due to sequestration will have to be provided in fiscal year 2014—in addition to the funds necessary for fiscal year 2014 contract renewals.
- Short-funding wastes administrative time at HUD because staff must process funding multiple times for the same property over the course of the year.
- Short-funding jeopardizes investor and owner confidence in the PBS8 program.

OTHER CRITICAL HUD MULTIFAMILY HOUSING PROGRAMS

NAHMA strongly urges the subcommittee to prevent draconian cuts to affordable multifamily housing programs administered by the Department of Housing and Urban Development (HUD). In fiscal year 2014, NAHMA strongly urges that the subcommittee provide the necessary appropriations to ensure that all of HUD’s rental assistance programs receive full funding for their 12-month contract terms in fiscal year 2014, and that no shortfalls result from the sequester funding levels in the fiscal year 2013 continuing resolution.

In addition to project-based section 8, NAHMA is concerned about funding levels for the following programs:

- NAHMA urges the subcommittee to provide the \$20 billion requested by HUD for the Housing Choice Voucher (HCV, or tenant-based section 8) program plus any additional funding necessary to ensure there are no program or contract shortfalls due to the fiscal year 2013 sequestration.
- For Section 202 Housing for the Elderly, NAHMA requests at least \$400 million plus any additional funding necessary to ensure there are no contract shortfalls due to the fiscal year 2013 sequestration. HUD’s request for this program also includes \$310 million for the renewal and amendments of Project Rental Assistance Contracts (PRACs) and \$70 million for the service coordinator program. NAHMA also requests at least \$20 million for new construction of apartments to serve the elderly.
- For Section 811 Housing for the Disabled, NAHMA requests at least \$126 million plus any additional funding necessary to ensure there are no contract shortfalls due to the fiscal year 2013 sequestration. HUD’s request includes

\$106 million for section 811 PRACs. NAHMA also requests at least \$20 million for new construction of apartments to serve disabled persons.

- The General and Special Risk Insurance Fund programs provide mortgage insurance for financing the development or rehabilitation of multifamily housing, nursing homes and hospitals. NAHMA supports HUD's request of \$30 billion in commitment authority.
- The HOME Investment Partnerships (HOME) program is the largest Federal block grant to State and local governments designed exclusively to produce affordable housing for low-income families. NAHMA requests funding at a level as close to \$1.6 billion as possible.
- The Community Development Block Grant (CDBG) offers block grants to local communities for community development purposes, including the development of affordable housing. NAHMA urges the subcommittee to provide \$3.3 billion for the CDBG.
- Both HOME and CDBG provide essential gap financing for development of Low Income Housing Tax Credit (LIHTC) properties.

PASSING COMPREHENSIVE, PRAGMATIC RENTAL ASSISTANCE REFORM LEGISLATION

NAHMA joins a broad coalition of private housing providers, public housing agencies, low-income housing advocates and other stakeholders in urging Congress to pass comprehensive rental assistance and section 8 Housing Choice Voucher (HCV) reform legislation in 2013. The most recent proposal was the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA) developed by the House Financial Services Committee in 2012. Savings and efficiencies achieved through these reforms would help stretch limited funds and minimize the risk of harsh cuts in assistance to needy families. If these reforms are enacted, it is essential to ensure the savings achieved are used to continue funding affordable multifamily housing programs. NAHMA strongly supports measures which would:

- Streamline inspections of HCV housing units by permitting owners to make minor repairs within 30 days and permitting public housing authorities to allow occupancy prior to the inspection in buildings which passed an alternative inspection (HOME, LIHTC or other inspections with equally stringent standards) within the last 12 months. These changes will help voucher-holders in tight rental markets with low vacancy.
- Expand income targeting for the public housing, HCV and project-based section 8 programs. These changes will help house more working poor families, particularly in rural areas.
- Simplify the rules for determining a family's rent and income, for example, by allowing families on fixed incomes to recertify their incomes once every 3 years instead of annually. This will reduce the administrative burdens on tenants, property owners, and management agents.
- Stabilize HCV funding by basing it on the previous year's leasing and cost data.
- Encourage self-sufficiency for residents.
- Streamline the use of HCVs with other Federal housing programs, like the LIHTC, by extending the permitted contract period for project-based vouchers from 15 to 20 years.
- Authorize HUD's Rental Assistance Demonstration (RAD) program. RAD is intended to test strategies to leverage private funds for public housing capital needs, preserve units assisted through the section 8 Moderate Rehabilitation program and allow properties assisted under the Rental Assistance Payment (RAP) and Rent Supplement (Rent Supp) programs to convert to project-based section 8 contracts.
- Authorize HUD to provide Limited English Proficiency (LEP) technical assistance to recipients of Federal funds. This program would create a stakeholder working group to identify vital documents for translations, require HUD to translate identified documents within 6 months and create a HUD-administered 1-800 hotline to assist with oral interpretation needs. This program is necessary because it will offer a higher-level of quality control over the services provided to LEP persons and ensure meaningful access to HUD's housing programs for persons with LEP. It will also relieve housing operators of an unfunded obligation to provide language services that could divert funds from repairs and maintenance of the properties.

CONCLUSION

Thank you again for the opportunity to submit this testimony. I look forward to working with the subcommittee to ensure essential HUD rental assistance programs are fully funded and properly administered.

PREPARED STATEMENT OF THE NATIONAL AIDS HOUSING COALITION

The National AIDS Housing Coalition (NAHC) is a national housing policy and advocacy organization working to end the HIV/AIDS epidemic by ensuring that persons living with HIV/AIDS have quality, affordable and appropriate housing. NAHC's network of members includes hundreds of low-income people living with HIV/AIDS, relying on Federal housing assistance to improve their ability to access and remain in care. On their behalf, we ask that you fund the highly successful and cost effective Housing Opportunities for Persons With AIDS Program (HOPWA) at a level of \$365.2 million for fiscal year 2014. While this amount would provide assistance to far fewer than the actual number of people with HIV/AIDS that are eligible for and in need of housing assistance, it would permit housing help for an additional 4,250 households beyond the 61,614 unduplicated households currently served. HUD's own data indicates 146,986 households are currently eligible for HOPWA but unserved. In fact, HIV/AIDS housing providers project that half of the 1.2 million people with HIV/AIDS require some form of housing assistance during the course of their illness. This request represents the HIV/AIDS housing community's recognition of the considerable challenges of the current economic climate yet still provides for some of the most vulnerable whose access to care and health outcomes are inextricably linked to housing status.

NAHC is the only national housing organization that focuses specifically on the housing and housing-related service needs of low-income people with HIV/AIDS. A core tenet of our mission is to see housing acknowledged and funded as a component of HIV prevention and healthcare. As more people are living longer with the virus and require housing assistance, unmet need is significant across the country. We understand that as many as three new jurisdictions may become eligible for funding during 2014, requiring that providers stretch already scarce existing resources to serve more people.

Anecdotal reports from the NAHC membership and supporters reveal more than 45,000 people waiting for housing assistance in just 14 reporting jurisdictions. In the southern part of United States, where the epidemic is growing the fastest, resources continue to be unavailable. In Dallas, Texas, for example, more than 4,375 people are awaiting housing assistance, not counting those who have given up, resigned to life doubled and tripled up in unsuitable dwellings, moving from shelter to shelter, or simply are navigating the streets. In places where the epidemic is most mature, the numbers waiting are even larger. In Los Angeles, for example, more than 11,000 are waiting for housing.

Research shows that homelessness increases HIV risk. In a New York City (NYC) study, for example, new diagnoses among NYC shelter users were 16 times higher than among general population. Conversely, HIV increases risk of homelessness. Research demonstrates that up to 70 percent of people with HIV/AIDS report a lifetime experience of homelessness or housing instability. In some communities as many as 70 percent of people with HIV/AIDS are literally homeless, living in shelters on the streets or in places not intended for human habitation.

For vulnerable populations the risk is even greater. For example, among a study involving HIV-positive women, research demonstrated if homeless or unstably housed at time of diagnosis, that women were at an increased risk for delayed entry into care and receipt of housing assistance was associated with access to care and reentry into care after dropping out. Unmet subsistence needs, including housing, had the strongest overall effect on physical and mental health of homeless women, with a greater effect on overall health as antiretroviral therapy.

Research, much of which has been presented through NAHC's Housing and HIV/AIDS Research Summit Series, confirms housing as a strategic healthcare intervention to reduce health disparities by addressing both HIV/AIDS and those contexts that most expose people to HIV risk, including gender, extreme poverty, mental illness, chronic drug use, incarceration, and histories of exposure to trauma and violence, as well as homelessness. In addition, housing coupled with related services reduces overall public expense and more wisely deploys limited public resources. Research presented through NAHC's Housing and HIV/AIDS Research Summit Series, including a searchable data base of more than 300 articles on housing and HIV/AIDS, can be found at the Summit Series permanent Web site, www.hivhousingsummit.org.

HOPWA's track record for helping people with HIV/AIDS achieve housing stability is sterling. During program year 2011-2012, more than 95 percent of people receiving tenant-based rental assistance through HOPWA achieved housing stability. Among those receiving any form of HOPWA housing assistance, over 93 percent developed a housing plan for continued on-going housing and nearly 89 percent

had on-going contact with a primary care provider as specified in their service plans.

Moreover, housing is a proven cost-saving and cost-effective healthcare and housing intervention. Housing sharply reduces avoidable emergency and inpatient health services, criminal justice involvement and other crises that are costly for both individuals and communities. One of the two seminal studies in this area, the Chicago Housing for Health Partnership (CHHP) found that homeless people with AIDS who received housing consumed \$6,620 less in publicly funded housing, medical and crisis care than a comparison group that continued in “usual care,” not receiving a housing voucher.

The public cost “savings” generated by providing housing supports can fully offset the cost of the housing for people with AIDS, even before taking into account that each new HIV infection prevented through housing stability saves \$400,000 in lifetime medical costs.

There has been some national progress on evidence-based action on housing and HIV/AIDS. The July 2010 National HIV/AIDS Housing Strategy recognizes that housing is healthcare for people with HIV/AIDS and calls for increased resources and calls on Federal agencies to consider additional efforts to support housing assistance and other services to enhance adherence. In addition, in July 2012, the Department of Health and Human Services (HHS) included housing as one of seven common core indicators to monitor HHS-funded prevention, treatment and care services. Despite these advances, no additional resources have been made available for housing.

NAHC’s geographically diverse board fully supports and anxiously awaits the revision of the HOPWA formula as directed in the National HIV/AIDS Strategy to yield a fairer allocation of resources more directly tied to the current geographic distribution of the epidemic. Rural settings, the southeast and other regions . . . Until the formula is modernized, we ask that the subcommittee continue to support levels of funding for the program in its current formulation that will permit some of those waiting to be served.

In addition, HIV/AIDS providers urge adequate funding for Homeless Assistance Grants, Section 8 Housing Choice Vouchers, public housing, the 811 program for people with disabilities, and the range of housing programs relied upon by people coping with HIV/AIDS.

We respectfully request the subcommittee to consider protecting and expanding resources in the Housing Opportunities for Persons with AIDS Program, a proven, effective HIV prevention and healthcare intervention.

LETTER FROM THE NATIONAL ASSOCIATION OF COUNTIES, ET AL.

APRIL 19, 2013.

Hon. PATTY MURRAY,
*Chairman, Subcommittee on Transportation, Housing and Urban Development, and
Related Agencies,*
Washington, DC.

Hon. SUSAN COLLINS,
*Ranking Member, Subcommittee on Transportation, Housing and Urban Develop-
ment, and Related Agencies,*
Washington, DC.

Dear Chairman Murray and Ranking Member Collins: As you near consideration of the fiscal year 2014 Transportation, Housing and Urban Development, and Related Agencies Appropriations bill, the undersigned organizations representing local elected officials, State and local community development practitioners, planners, development organizations, and nonprofit organizations, urge you to support \$3.3 billion in formula funding for the Community Development Block Grant (CDBG) Program.

CDBG provides vital funding and flexibility to address local needs in the areas of community and economic development, housing, infrastructure and vital public services. Over 1,200 communities rely on CDBG as a direct source of annual funding. Moreover, each year, an estimated 7,250 local governments nationally have access to CDBG funds; reaching rural, urban, and suburban areas. CDBG helps create jobs through the expansion and retention of businesses.

Since fiscal year 2010, funding for CDBG has been cut by over \$1 billion, yet the need for these important resources at the local level has continued to grow. While we understand the need to address the Federal budget, we also understand the value of the local investments made by CDBG. We are deeply concerned that these

investments are in jeopardy due to the Obama administration's fiscal year 2014 proposed budget cuts to CDBG, funding the formula program at \$2.8 billion.

The CDBG program generates additional resources, and adds to the local economy. For example, for every \$1 of CDBG funding invested in a project another \$3.55 is leveraged from other sources. Since its inception in 1974, CDBG has leveraged nearly \$400 billion in other resources for community development and affordable housing.

What has CDBG accomplished?

ECONOMIC OPPORTUNITIES

Between fiscal year 2005 and fiscal year 2012 CDBG created or retained 302,622 local jobs.

DECENT HOUSING

Between fiscal year 2005 and fiscal year 2012 CDBG has assisted over 1 million low- and moderate-income homeowners to rehabilitate their homes, provided down payment and closing cost assistance to qualified home buyers, and assisted homeowners through lead-based paint abatement.

SUITABLE LIVING ENVIRONMENT

Between fiscal year 2005 and fiscal year 2012 CDBG-funded infrastructure projects have benefited over 30 million Americans nationwide, by providing a suitable living environment that includes sanitary water and sewer systems, safe streets and transit-ways, improved drainage systems, and other improvements that support our communities and help grow local economies.

Between fiscal year 2005 and fiscal year 2012, CDBG has provided public services to over 95 million low- and moderate-income households nationwide. These services included employment training, meals and other services to the elderly, services to help abused and neglected children, assistance to local food banks, among others.

We urge you to support our recommendation of \$3.3 billion for CDBG formula grants in fiscal year 2014 to help communities nationwide continue to provide vital programs and services to low-income persons.

Respectfully,

American Planning Association
Council of State Community
Development Agencies
Habitat for Humanity International
Housing Assistance Council
International Economic Development
Council
Local Initiatives Support Corporation
National Alliance of Community and
Economic Development Associations
National Association of Counties
National Association for County
Community and Economic
Development

National Association of Development
Organizations
National Association of Local Housing
Finance Agencies
National Association of Housing and
Redevelopment Officials
National Community Development
Association
National Housing Conference
National League of Cities
National Rural Housing Coalition
Rebuilding Together
U.S. Conference of Mayors
U.S. Soccer Foundation

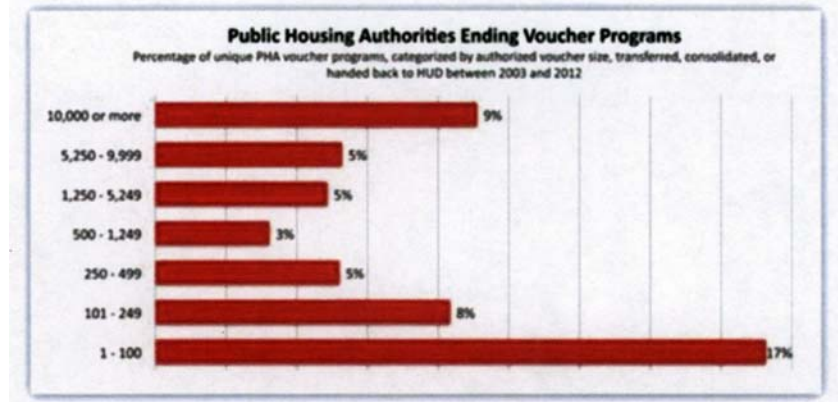
PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Chairman Murray, Ranking Member Collins, members of the Transportation, Housing and Urban Development, and Related Agencies Subcommittee, thank you for providing an opportunity for outside witnesses to testify with respect to the fiscal year 2014 Department of Housing and Urban Development (HUD) budget. The National Association of Housing and Redevelopment Officials (NAHRO) is one of the Nation's oldest housing advocacy organizations. It represents over 3,100 housing and redevelopment authorities nationwide who provide decent, safe and affordable housing in neighborhoods of quality for well over 2 million families—including senior citizens, the disabled and our Nation's veterans. Our members are on the front lines every day to assist vulnerable families and the homeless in both urban and rural America. They know what works, what does not and why; they are mission-driven and they remain, following decades of service to the community, an essential component of the Nation's housing delivery system.

Our national network of housing and community development (HCD) professionals stands ready to use taxpayers' dollars wisely and with integrity to move us closer to a Nation in which all people have decent, safe, affordable housing and economic opportunity in viable, sustainable communities. NAHRO calls upon the administration and the Congress to provide responsible funding levels for the core Federal HCD programs that serve low- and moderate-income families at the local level. Recognizing the fiscal realities you face, NAHRO also aggressively seeks a more rational, less administratively burdensome regulatory environment. NAHRO supports reforms, including essential statutory reforms under the purview of the Banking, Housing and Urban Affairs Committee, which will allow local agencies to stretch Federal investments further, house more families, and pursue targeted community and economic development activities with the potential to transform neighborhoods and communities.

TIPPING POINT

Our efforts as a Nation to reduce the current Federal deficit are important and well-intended. Unfortunately, their serious (though unintended) consequences are now affecting vulnerable families who would be homeless without the assistance they now receive through programs managed by NAHRO members. Limited 302B allocations to this subcommittee over many years, coupled with spending caps implemented as a result of the Budget Control Act of 2011, disproportionate reductions in domestic discretionary dollars and the March 1 sequester, have resulted in historically low funding proration for such things as voucher program administration and the public housing operating fund. Underfunding, coupled with a lack of regulatory relief, has finally brought us to a tipping point. Increasing numbers of housing authorities have advised or must soon advise vulnerable families currently receiving housing assistance payments that they can no longer assist them. More and more housing authorities are returning vouchers—including Veterans Affairs Supportive Housing (VASH) vouchers—to HUD because they can no longer afford to administer the program (see the following chart).



In addition, structural decisions impacting housing programs, such as the ill-timed reduction in public housing authority reserves in fiscal year 2012, have put many housing authorities in a vulnerable position. Under current funding scenarios, some housing and redevelopment agencies—notably smaller entities in rural areas—will in time be forced to close their doors. They will no longer be able to assist those who currently rely on them, much less families who have been on public housing and section 8 waiting lists for many years.

Building on the valiant efforts of this subcommittee to provide necessary dollars within the context of reduced allocations coupled with larger budget pressures, housing and redevelopment authorities have done more with less for years. The 2014 Transportation, Housing and Urban Development, and Related Agencies (THUD) appropriation provides us with an opportunity and a real challenge to deal with the current set of facts on the ground in far too many communities across the Nation. A return to “regular order” in the Congress must be coupled with a return to fiscal policies that recognize our Nation’s core values—notably our decades-long commitment to a decent home and suitable living environment for all Americans.

In this spirit we respectfully urge your consideration and ultimate adoption of following principles:

- Preserve and revitalize the public housing inventory;
- Reform, strengthen and adequately fund the section 8 program;
- Fully fund community and economic development programs;
- Enact small housing authority reforms;
- Expand the supply of affordable housing;
- Fully fund homeless assistance grant programs; and
- Improve the regulatory environment for HCD agencies.

PROGRAM-SPECIFIC RECOMMENDATIONS

We hope this subcommittee, in conjunction with your colleagues on the Banking Committee, will let these recommendations guide your work in the formulation of funding decisions and necessary reforms for core HUD programs managed by our members. Our own fiscal year 2014 funding recommendations can be found in our testimony. For more detail, NAHRO's 2013 Legislative and Regulatory Agenda is available online at: www.nahro.org/sites/default/files/searchable/2013Agenda.pdf.

PUBLIC HOUSING

Provide full funding for the operating costs and annual capital accrual needs of public housing through direct appropriations.

Enable greater flexibility to direct available resources toward their highest priority needs, regardless of funding source.

Seek dedicated resources for the revitalization of severely distressed public housing properties.

Unlock the value of public housing assets by providing public housing authorities (PHAs) with a variety of tools to leverage and invest in the preservation of their properties.

Provide in statute for the establishment of protected capital reserve accounts to allow PHAs to plan responsibly for future needs.

Improve tools designed to allow PHAs to steward their portfolios as true asset managers, including HUD's demolition and disposition regulations.

Provide enhanced incentives for energy efficiency upgrades.

SECTION 8

Provide appropriations sufficient to renew vouchers at actual rental assistance costs for all participating households and full funding for ongoing and special administrative fees as provided in section 8(q) of the U.S. Housing Act as amended by the Quality Housing and Work Responsibility Act of 1998.

Provide for a voucher funding formula that is based on the number of families served and voucher costs for the most recent calendar year for which data are available.

Restore a responsible level of administrative fee funding under voucher programs.

Provide for new authority to allow PHAs to utilize a portion of their Housing Assistance Payment Reserves to cover unmet administrative expenses related to leasing and retaining leased households.

Enact meaningful voucher program reform legislation.

Enable the immediate implementation of long-overdue regulatory and administrative reforms that will allow for the more efficient use of resources in voucher programs.

Provide for a responsible level of funding for the renewal of section 8 multi-family project-based rental assistance (PBRA) contracts.

Maintain a level playing field in the competition for contracts under the Section 8 Performance-Based Contract Administrators initiative.

COMMUNITY AND ECONOMIC DEVELOPMENT

Restore funding for CDBG to ensure the success of State and local efforts to spur job creation and retention, provide vital public services, and expand affordable housing opportunities for low- and moderate-income families and individuals.

Provide funding for the Sustainable Housing and Communities Initiative separate from and not as a set-aside under the CDBG program.

Cover the credit subsidy for HUD's section 108 loan guarantee program, and increase the loan guarantee limit to \$500 million as previously proposed by the administration.

Restore dedicated funding for HUD's Brownfields Economic Development Initiative.

Restore a responsible level of funding for the HOME Investment Partnerships Program (HOME).

Enact a budget neutral mandatory funding source for the Housing Trust Fund.

Thank you again for the opportunity to testify. We look forward to discussing our funding recommendations with this subcommittee in greater detail.

NAHRO—RECOMMENDED FISCAL YEAR 2014 FUNDING LEVELS FOR SELECTED HUD PROGRAMS

[Brackets in text indicate set-asides, and indented text indicates sub-accounts.]

Program	Fiscal year 2013 (\$ millions)		Fiscal year 2014 (\$ millions)	
	Enacted ¹	Sequestration ²	Proposed ³	NAHRO ⁴
Public Housing Operating Fund	\$4,253	\$4,054	⁵ \$4,600	⁶ \$5,168
Public Housing Capital Fund	1,871	1,777	2,000	3,750
ROSS Program	[50]	[47]	.....	50
Emergency Capital Needs	[20]	[19]	⁷ [20]	20
Choice Neighborhoods Initiative	120	114	400	⁸ 400
Rental Assistance Demonstration .....	.....	.....	10	.....
Tenant-Based Rental Assistance	18,901	17,964	19,989	.....
Section 8 HAP Renewals	⁹ [17,207]	[16,349]	¹¹ [17,968]	¹¹ 18,540
Ongoing Administrative Fees	[1,322]	[1,258]	[1,635]	1,994
Additional Administrative Fees	[50]	[48]	[50]	50
Tenant Protection Vouchers	[75]	[71]	[150]	150
Incremental HUD-VASH Vouchers	[75]	[75]	[75]	75
Family Self-Sufficiency (FSS) Coordinators	[60]	[57]	¹¹ 75	87
Sec. 8 Project-Based Rental Assistance	¹² 9,321	8,852	10,272	Fully Fund ¹³
Community Development Fund	3,301	3,135	3,143	.....
Community Development Block Grant Program ..	[3,242]	[3,078]	[2,798]	3,300
Neighborhood Stabilization Initiative .....	.....	.....	[200]	.....
Integrated Planning and Investment Grants .....	.....	.....	[75]	.....
Section 108 Loan Guarantees	5.94	5.64	¹⁴	12
HOME Investment Partnerships Program	998	948	950	1,600
Housing Opportunities for Persons with AIDS	331	315	332	365
Homeless Assistance Grants	2,029	1,933	2,381	2,381

¹ Enacted levels from Consolidated and Further Continuing Appropriations Act, 2013, as signed by the President on March 22, 2013. Figures reflect application of 0.2 percent across-the-board cut as required by the legislation.

² Figures reflect 5 percent across-the-board sequestration reductions as calculated by the Office of Management and Budget on March 1, 2013.

³ Obama administration's proposed budget for FY 2014. Figures do not reflect proposed Transformation Initiative set-asides.

⁴ NAHRO recommendations are for standalone/line-item funding. Blank indicates no position.

⁵ The budget proposes to reduce eligibility by a total of \$63 million through changes to flat rent and the medical expense deduction threshold.

⁶ NAHRO's recommendation assumes that eligibility is determined according to current statutes and regulations governing such calculations.

⁷ Proposes the elimination of safety and security measures as an eligible use of funding.

⁸ NAHRO's support for this funding level is contingent upon responsible funding levels for the Operating and Capital Funds and the enactment of authorizing legislation requiring that two-thirds of each year's funding be awarded to projects where PHAs are the lead or co-applicants.

⁹ The act authorizes the use of the housing assistance payments (HAP) adjustment fund "for PHAs, that despite taking reasonable cost savings measures, as determined by the Secretary, would otherwise be required to terminate participating families from the program due to insufficient funds."

¹⁰ Assumes \$235 million in savings from proposed changes to income targeting, minimum rents, the medical expense deduction threshold, and the determination of utility allowances. Also assumes an unspecified amount of indirect funding through offsets of "excess" HAP Reserves from non-Moving to Work (MTW) PHAs and MTW PHAs.

¹¹ The Administration proposes eliminating the section 8 family self-sufficiency (FSS) set-aside in favor of a standalone consolidated program to serve Public Housing and section 8 housing choice voucher (HCV) residents.

¹² The act authorizes the use of "unobligated balances, including recaptures and carryover, remaining from funds appropriated" for fiscal year 2013 and prior years under the headings of "Housing Certificate Fund," "Annual Contributions for Assisted Housing," and "Project-Based Rental Assistance" for "renewal of or amendments to section 8 project-based contracts and for performance-based contract administrators."

¹³ NAHRO supports a stable, reliable subsidy stream in the form of full 12-month contract renewal funding.

¹⁴ In lieu of appropriations, the Administration proposes collecting a fee from borrowers to cover the program's credit subsidy costs.

LETTER FROM THE NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES,
THE U.S. CONFERENCE OF MAYORS, AND THE NATIONAL COMMUNITY DEVELOPMENT
ASSOCIATION

APRIL 19, 2013.

Hon. PATTY MURRAY,
*Chairman, Subcommittee on Transportation, Housing and Urban Development, and
Related Agencies,*
Washington, DC.

Hon. SUSAN COLLINS,
*Ranking Member, Subcommittee on Transportation, Housing and Urban Develop-
ment, and Related Agencies,*
Washington, DC.

Dear Chairman Murray and Ranking Member Collins: The undersigned organizations of local elected officials and local and State housing and community development practitioners write to you concerning fiscal year 2014 appropriations for the Community Development Block and HOME Investment Partnerships (HOME) programs. Specifically, we wish to urge the Transportation and Housing and Urban Development Appropriations subcommittee to reject recommendations contained within the administration's fiscal year 2014 budget recommending set-asides and other "reforms" of these programs.

Like other national organizations we urge you to support \$3.3 billion in formula funding for the Community Development Block Grant (CDBG) Program.

However, we do not support the administration's proposal to reduce overall CDBG formula funds by \$275 million, for a \$200 million Neighborhood Stabilization Program Initiative and \$75 million for Integrated Planning Grants (formerly known as the Sustainable Communities Initiative). This has the effect of transferring formula funds which benefit the many into two categorical grant programs that would benefit the few. Similarly, the HOME budget request contains an up to \$10 million set-aside for the Self-Help Homeownership Opportunity Program (SHOP). These set-asides are for activities that could be funded under the CDBG or HOME programs respectively.

We also want to advise that we do not support the establishment of a minimum funding threshold for CDBG entitlement grants. This would adversely affect an estimated 340 smaller communities who are currently implementing programs that are responsive to their needs. This would force them to compete for limited State funds without any positive benefit to either them or the State. We also oppose the administration's proposal to repeal the grandfathering provisions in CDBG for metropolitan cities and urban counties. Again, this would seriously disrupt on-going programs.

Based on fiscal year 2012 allocations (the Department of Housing and Urban Development (HUD) has not released the fiscal year 2013 allocations) in Washington State the following communities would lose direct funding because they fall below the \$350,000 threshold: Anacortes, East Wenatchee City, Longview, Marysville, Mount Vernon, Olympia, Redmond, Richland, Shoreline, and Wenatchee.

CDBG provides vital funding and flexibility to address local needs in the areas of community and economic development, housing, infrastructure and vital public services. Over 1,200 communities rely on CDBG as a direct source of annual funding. Moreover, each year, an estimated 7,250 local governments nationally have access to CDBG funds reaching rural, urban, and suburban areas. CDBG helps create jobs through the expansion and retention of businesses.

Since fiscal year 2010, funding for CDBG has been cut by over \$1 billion, yet the need for these important resources has continued to grow. While we understand the need to address the Federal budget deficit, we also understand the value of the local investments made by CDBG. We are deeply concerned that these investments are in jeopardy due to the Obama administration's fiscal year 2014 proposed budget cuts to CDBG, funding the program at \$2.8 billion.

The CDBG program generates additional resources, and adds to the local economy. For example, for every \$1 of CDBG funding invested in a project another \$3.55 is leveraged from other sources. Since its inception in 1974, CDBG has leveraged nearly \$400 billion in other resources for community development and affordable housing.

As a companion to CDBG, the HOME Investment Partnerships program has suffered severe cuts since fiscal year 2010, from \$1.8 billion then to \$950 million in fiscal year 2013, following sequestration. We urge that its funding level be restored to \$1.6 billion in fiscal year 2014.

HOME serves as a critical source of funding for the expansion of affordable ownership and rental housing for low- and moderate-income households. The types of activities HOME assists are the construction and preservation of affordable rental housing usually as gap assistance, the construction and rehabilitation or affordable ownership housing as well as for homeownership assistance and tenant-based rental assistance. Since HOME was enacted in 1990 it has produced over 1 million affordable homes, including 612,792 homeownership new construction and rehabilitation units and 423,154 new construction or preservation of rental units. Every \$1 of HOME funds leverages an additional \$4 in non-HOME funds.

The administration's fiscal year 2014 budget proposes funding for HOME at the \$950 million finally approved for fiscal year 2013. It is estimated that this will decrease production of HOME units by 34,000 units and result in the loss of an estimated 8,935 jobs.

Thus, we urge you to support our recommendation of \$3.3 billion for CDBG formula grants and \$1.6 billion for HOME in fiscal year 2014 to help communities nationwide continue to provide vital affordable housing and neighborhood revitalization programs and services to low-income persons.

Respectfully,

U.S. Conference of Mayors, National Association of Local Housing Finance Agencies, and the National Community Development Association.

LETTER FROM THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES

APRIL 19, 2013.

Hon. PATTY MURRAY,
Chairman, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies,
Washington, DC.

Hon. SUSAN COLLINS,
Ranking Member, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies,
Washington, DC.

DEAR CHAIRMAN MURRAY AND RANKING MEMBER COLLINS: We appreciate this opportunity to provide testimony in support of the HOME Investment Partnerships (HOME) program. HOME program funding is vital to the production and provision of housing affordable to low-income families. Yet HOME has received devastating cuts—cut almost in half in just the past few years. Just since fiscal year 2011, HOME has been cut by 41 percent from \$1.6 billion to an estimated post-sequester level of \$948 million in fiscal year 2013. Cuts to the HOME program are being felt deeply across the country. For example, the HOME funding allocation to the State of Washington has decreased by 43 percent, from \$34.5 million in fiscal year 2010 to \$19.8 million in fiscal year 2012, and the allocation to the State of Maine has fallen 44 percent, from \$8.5 million in fiscal year 2010 to \$4.7 million in fiscal year 2012.

To begin restoring funds for HOME, we implore you to fund HOME in fiscal year 2014 at \$1.6 billion, equal to its fiscal year 2011 funding level. We ask that you resist additional, disproportionate cuts to HOME and recognize both the successful track record of the program and the need for its continued funding at a time when our housing market, and broader economy, continues to struggle and the need for affordable housing continues to grow.

Authorized in 1990, the HOME program provides grants to State and local governments to produce affordable housing for low-income families. HOME funds are a vital and unique source of financing for numerous affordable housing developments—many of which would not be possible without HOME assistance. States and localities use HOME for affordable housing production and rehabilitation, preservation, and rental and homeownership assistance.

By flexibly working with and supporting many critical Federal housing programs, including the Low Income Housing Tax Credit and rural housing programs, HOME uniquely empowers States and localities to respond to the housing needs they judge most pressing. States and localities use HOME to serve the whole spectrum of housing need, from homeless to ownership to disaster recovery, from urban to rural areas, and all low-income populations, including families with children, the elderly, veterans, and persons with special needs. HOME also enables for-profit and non-profit developers to provide affordable housing in their communities.

In its 20 years of existence, the HOME program has successfully produced more than 1 million affordable homes, in addition to making homes affordable for hundreds of thousands of families with rental assistance. From 1992 to 2012, States and localities have used HOME funds to produce 460,692 home buyer homes, 423,154 rental homes, and 212,100 rehabilitated home buyer homes. Another 264,715 families have received rental assistance through the HOME program. States and localities leverage HOME funding by generating more than \$4 in other private and public resources for every \$1 of HOME. Over the program's lifetime, HOME funds have been used to leverage \$100.2 billion in funds for affordable housing.

HOME funding is used exclusively to create affordable housing for low-income households, those earning incomes of 80 percent or less of area median income (AMI). While the statute requires that at least 90 percent of families receiving rental assistance through HOME have incomes at 60 percent of AMI or less, almost 100 percent of those receiving tenant-based rental assistance and 97 percent of families living in HOME-assisted rental units have incomes of 60 percent of AMI or less. One out of four families helped with HOME are extremely low-income, with incomes of 30 percent of AMI or less.

In addition to providing needed affordable housing, HOME funds contribute to job creation, especially in the hard-hit construction sector. Every \$1 billion in HOME creates or protects approximately 18,000 jobs. Restoring funding to \$1.6 billion in fiscal year 2014 would create 11,736 more jobs than created by HOME's fiscal year 2013 funding level.

Based on projected production levels included in HUD's fiscal year 2014 budget request, if HOME is funded in fiscal year 2014 at the administration's proposed level of \$950 million, we expect almost 34,000 fewer affordable homes will be produced in fiscal year 2014 than were produced in fiscal year 2011. This means fewer home buyer and rental units, fewer homeowner rehabilitation projects, and fewer tenants assisted.

As we face decreased investment in the production of affordable housing, we face a continued growing need for it. According to HUD's latest Worst Case Housing Needs report, in 2011 nearly 8.5 million very low-income families—who received no government housing assistance—paid more than half their monthly income for rent, lived in severely substandard housing, or both. This number is up 2.6 million, or 43.5 percent, since 2007.

Today, there are only 57 affordable rental homes available for every 100 very low-income renter households, those earning 50 percent of AMI or less. For the 10.1 million households with extremely low incomes, there are only 30 affordable homes available for every 100 households. Only one in four households eligible for Federal rental housing assistance receives it.

As a capital program, HOME is a vital resource for addressing this growing housing need. HOME funds produce new units of affordable housing and thus are necessary to increasing the overall supply of affordable housing. The Bipartisan Policy Center's Housing Commission in its recent report entitled *Housing America's Future: New Directions for National Policy*, called for an increase in HOME appropriations to serve as the gap financing needed to support new developments that would expand the supply of affordable rental housing.

A HOME program appropriation of \$1.6 billion in fiscal year 2014 would only go partway towards restoring HOME program funding, but it would provide States and local communities with the critical resources needed to help address the spectrum of affordable housing needs they face. Therefore, we urge you to support the proven outcomes of the HOME program by providing a fiscal year 2014 appropriation of \$1.6 billion. Thank you for this opportunity to testify on the need for HOME funding. Please do not hesitate to contact us with any questions.

Sincerely,

Council for Affordable and Rural
Housing
Council of State Community
Development Agencies
CSH
Enterprise Community Partners
Habitat for Humanity International
Housing Assistance Council
Housing Partnership Network
Mercy Housing
National Alliance of Community
Economic Development Associations

National Association for County
Community and Economic
Development
National Association of Home Builders
National Association of Housing and
Redevelopment Officials
National Association of Local Housing
Finance Agencies
National Community Development
Association
National Council of State Housing
Agencies
National Housing Conference

National Leased Housing Association	Stewards of Affordable Housing for the
National Low Income Housing Coalition	Future
National Rural Housing Coalition	The Community Builders, Inc.

PREPARED STATEMENT OF THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Thank you for the opportunity to provide testimony on behalf of our Housing Finance Agency (HFA) members regarding fiscal year 2014 appropriations for housing programs. As you consider your fiscal year 2014 Department of Housing and Urban Development (HUD) appropriations bill, we urge you to restore HOME Investment Partnerships Program (HOME) formula grant funding to \$1.6 billion, equal to its fiscal year 2011 funding level, and provide section 8 funding adequate to renew all expiring project-based contracts for a full year, fully fund all authorized Housing Choice Vouchers (vouchers), provide new incremental vouchers in fiscal year 2014, allocate new flexible rental assistance to State HFAs, and ensure that successful HFA voucher and project-based contract administrators continue in and are adequately compensated for these roles. We also ask you to provide authority for Ginnie Mae to securitize Federal Housing Administration (FHA)-HFA Multifamily Risk-Sharing program loans.

The National Council of State Housing Agencies' (NCSHA's) members are the HFAs of the 50 States, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. HFAs administer a wide range of affordable housing and community development programs, including HOME, section 8, homelessness assistance, down payment assistance, State housing trust funds, tax-exempt Housing Bonds, and the Low Income Housing Tax Credit (Housing Credit). HFAs effectively employ these resources to advance their common public-purpose mission of providing affordable housing to the people of their jurisdictions who need it.

HOME INVESTMENT PARTNERSHIPS PROGRAM

HOME program funding is vital to the production and provision of housing affordable to low-income families and has a long record of tremendous success in doing so. Yet HOME has received devastating cuts in recent years. HOME has been cut almost in half since fiscal year 2010. Just since fiscal year 2011, HOME funding has been cut by 41 percent—from \$1.6 billion to an estimated post-sequester level of \$948 million in fiscal year 2013. This is the lowest funding level in the program's 20-year history. We appeal to you to spare the HOME program from further cuts and to fund HOME at an amount as close to its fiscal year 2011 funding level of \$1.6 billion as possible. The need for HOME funding vastly exceeds the amount available.

We also request that the subcommittee resist further reducing the amount of this flexible funding source going directly to States and localities by not including any set-asides within the HOME program account.

In these tight budgetary times, the HOME formula grant is one of the best housing investments Congress can make. HOME's flexibility allows States and localities to determine how to put limited HOME funds to their best use. HFAs use HOME to serve the whole spectrum of housing need, from homeless to ownership to disaster recovery, from urban to rural areas, and all low-income populations, including families with children, the elderly, veterans, and persons with special needs. HOME funding is necessary to help States and localities respond to urgent housing needs.

HOME funds must be used to assist families with low incomes, those earning 80 percent of area median income (AMI) or less. State HFAs report using more than half of their HOME funds in 2011 to assist very low-income families, those earning 50 percent of AMI or less, and more than a quarter of the funds to assist extremely low-income families, those earning 30 percent of AMI or less.

HOME has an outstanding track record of success. States and localities have used HOME funding to produce more than 1 million affordable homes, in addition to making homes affordable for hundreds of thousands of families with direct rental assistance.

Further, every Federal HOME \$1 generates more than \$4 in additional public and private investment. HOME funds have leveraged more than \$100 billion in additional funds for affordable housing. HOME funding is a vital piece in financing numerous affordable housing developments—many of which would not be able to move forward without its assistance. HOME complements and supports many critical Federal housing programs, such as the Low Income Housing Tax Credit, making developments financially feasible and achieving deeper income targeting than would otherwise be possible.

NCSHA also supports the State-administered Housing Trust Fund and seeks a dedicated and sustainable funding source for it. However, the Housing Trust Fund is needed as a new resource for developing housing affordable to those with very low and extremely low incomes. It is not a replacement for appropriations to HOME and other HUD programs and should not be funded at their expense.

RENTAL ASSISTANCE

We recommend Congress provide adequate funding for vouchers and project-based section 8 contracts. These two programs serve some of our lowest income, most vulnerable people. We urge the subcommittee to ensure the section 8 accounts are funded such that all vouchers already in use are renewed and all contract renewals are funded for a full 12 months in order to maintain owner confidence in the program.

We also ask that you provide the funding necessary for public housing agencies (PHAs) to effectively administer the voucher program. PHAs have experienced year-over-year proration of administrative fees, which has negatively impacted PHAs' ability to administer the voucher program. HFA voucher and project-based contract administrators play critical roles in providing rental assistance and we ask that you ensure that they are adequately compensated for them.

Thank you for funding new incremental Veterans Affairs Supportive Housing (VASH) vouchers in fiscal year 2013. However, additional new unrestricted incremental vouchers are needed so we can help some of the millions of families who qualify for rental assistance but do not receive it. According to HUD's most recent report on Worst Case Housing Needs, there was a 43.5 percent increase from 2007 to 2011 in households with worst case housing needs—defined as very low-income renters not receiving government housing assistance who either pay more than half of their monthly income for rent, live in severely inadequate conditions, or both.

We urge you also to provide flexible rental assistance to State HFAs that they can use for either project-based or tenant-based rental assistance. Such funding would allow States to address their production and affordability needs most effectively and to serve more extremely low-income families by combining it with State-administered Housing Credit, Housing Bond, HOME, and other production resources.

States consistently target their Housing Credit, Housing Bond, and HOME resources to households with incomes below the programs' statutory income limits. Yet it is difficult—and sometimes impossible—to reach these households at a rent level they can afford without rental assistance.

GINNIE MAE SECURITIZATION OF MULTIFAMILY RISK-SHARING LOANS

We request that you provide authority for Ginnie Mae to securitize FHA-HFA Multifamily Risk-Sharing loans. Providing this authority will allow HFAs to reduce the cost of financing rental housing developments, making it possible to achieve lower rents and reach even lower income tenants.

Under the FHA-HFA Risk-Sharing program, HFAs meeting rigorous financial standards are able to underwrite FHA multifamily loans in return for sharing the risk of any losses on those loans. This program has been very successful, with 26 HFAs financing nearly 1,000 loans, totaling more than \$5 billion in principal and supporting more than 101,000 affordable rental homes.

If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points, or 2 percent. This rate reduction would lower rents and potentially reduce the need for and cost of other Federal housing subsidies. This authority would not increase Government spending. In fact, it would generate revenue for the Federal Government according to the Congressional Budget Office (CBO), which estimates that allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would result in \$20 million in mandatory savings over 10 years, or \$2 million annually.

We recognize the continued constrained fiscal environment in which you must craft your fiscal year 2014 appropriations legislation. We urge you to consider the proven effectiveness of HOME and section 8 rental assistance and the great unmet need for them, which has been further exacerbated in these difficult economic times, as you make your funding decisions. NCSHA appreciates this opportunity to offer a statement on behalf of these programs and we are ready to assist you in any way we can as you move forward with the fiscal year 2014 appropriations process.

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